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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

The recovery is currently proceeding at a robust pace but a trend of decelerating growth is now well established. Real or inflation adjusted Gross National Product (GNP) should increase at an annualized rate of 6 percent during the fourth quarter. The growth rate for the third quarter has been revised upward to 7.9 percent, down almost 2 full percentage points from the second quarter. The overall growth rate should continue to decline through 1984, falling to the 2 percent level by the fourth quarter. The drag of high interest rates will cause a much steeper decline in growth rates than during previous recoveries.

The current strong growth rate is driven by consumer spending and business inventory accumulation. Growth in consumer spending on durables, particularly automobiles, fell to 5.7 percent during the third quarter of this year but should recover to 14 percent or more during the fourth quarter due to the introduction of 1984 car models. Domestic car sales should reach 6.9 million units for 1983, up nearly 20 percent over 1982. The import share of the U.S. market is expected to decline from 28 percent in 1982 to 25 percent for 1983. Automobile sales are doing well now despite relatively high real interest rates because consumers delayed upgrading their vehicles during the prolonged recession.

At annualized rates, inventory accumulation was a hefty $26 billion during the third quarter and is expected to rise to $36 billion during the fourth quarter. Inventory accumulation is currently contributing nearly half of the growth in GNP.

While domestic automobile sales may rise to 8 million next year, overall growth in consumption expenditures and inventory accumulation will slow during 1984--the typical path as the recovery enters its second year.

The slower growth during 1984 will reflect only modest growth in business investment. Because of high real interest rates and relatively low levels of capacity utilization, businesses have less incentive to expand or modernize. As a result, growth in investment in nonresidential structures, which finally turned positive during the third quarter, will be weak in 1984 and 1985. Business investment in new equipment will be somewhat stronger as firms modernize existing equipment, but this increase will not be sufficient to boost overall economic growth. Businessmen fear the economy will slip back into recession in late 1985 or 1986 unless decisive action is taken to reduce the federal deficit.

High interest rates have exhausted the growth in residential investment. In fact, growth in residential investment could be negative during the fourth quarter of 1983 and could be only modest during 1984.

Exports recovered during the third quarter, but growth should be modest in both 1984 and 1985. The Canadian, U.K. and German economies have begun to recover, stimulating demand for U.S. products and services. But the overvalued U.S. dollar, another consequence of the huge federal deficits, is acting as a drag on export growth.

New job creation was at its highest point for this recovery during the third quarter with total employment increasing by 1.7 million. The unemployment rate fell from 9.3 percent in September to 8.8 percent in October. Employment growth should slow to 1.2 million jobs during the fourth quarter and is expected to decline to 0.6 million jobs in the fourth quarter of 1984 at which time the unemployment rate should be just above 8 percent. In 1985 the much slower growing economy may result in a rise in the unemployment rate.

The anticipated rise in inflation appears to have gotten underway. After rising at an annual rate of 4.9 percent in both July and August, the Consumer Price Index (CPI) rose a an annual rate of 6.2 percent in September. The rise in the CPI in September was due primarily to increases in prices of new and used cars, food, and housing.

For all of 1983 the CPI should rise just 3.3 percent, the lowest annual increase since 1972. In addition to the fall in oil prices during the first part of the year, this very low rate of inflation is attributable to a much slower rate of increase in per unit labor costs. Wage concessions negotiated during the 1980-1982 recession have held down labor costs, with gains in productivity outstripping increases in compensation per manhour during the first half of the year.

However, as the economy achieves a higher overall level of utilization, labor costs should begin to rise faster than productivity, leading to larger increases in the prices of products and services. Inflation should rise to 6 percent in 1984 and 7 percent in 1985.

Monetary Policy and Interest Rates

Interest rates continued to ease modestly during October due to relatively weak credit demand by both the private sector and the federal government. Long-term interest rates such as mortgage rates are now about 1/4 percentage point below August levels while short-term interest rates such as the rate on 3-month Treasury bills are 1/2 to 3/4 percentage point lower.

The credit needs of the federal government were temporarily down in October as the Treasury ended FY83 with larger than anticipated cash balances. Consumer installment credit demand is holding fairly constant while commercial and industrial loan demand remains very weak. Businesses appear to be very leary of taking on additional long-term debt, financing inventory accumulation and other short-term debt out of improved cash flow.

Interest rates in general would be modestly lower at this time were it not for overly restrictive monetary policy. The nation's money supply is growing very slowly, with both M1 and M2 near the lower end of their respective target ranges.

The Federal Reserve Board (FED) is expected to maintain its current policy stance through the end of this year and perhaps for a few months into 1984. Interest rates should stay at current levels over this period, perhaps edging slightly higher.

Table 1

Compound Annual Rates of Growth
of Alternative Measures of the Money Supply

	M1	M2	M3
1983			
July	9.3%	6.6%	5.7%
August	2.8%	6.2%	8.7%
September	0.9%	4.7%	7.4%
October	2.0%	N.A.	N.A.
FED Targets	5-9% a/	7-10% a/	6.5-9.5% b/
Forecast	6.8%	7.6%	8.5%

a/For the period from 83:2 to 83:4.

b/For the period from 82:4 to 83:4.

However, during 1984 the FED is expected to adopt a more accommodative stance as often happens in an election year. The growth of the money supply could be at the upper end of the target ranges. Long-term rates should drift lower as a result. The mortgage commitment rate should drop to 13 percent during the third and fourth quarters of 1984. Short-term rates should remain at or near current levels through mid-year since Treasury borrowing is expected to be particularly heavy at that time. Short-term rates should then ease during the second half of the year as Treasury borrowing declines.

In 1985 interest rates are expected to again rise. Accelerating inflation should force the FED to tighten up on the growth of the money supply while Treasury borrowing returns to an annual rate in excess of $200 billion.

Real Estate Markets

After falling in July and August, sales of existing homes rose 1.1 percent in September to a seasonally adjusted annual rate of 2,740,000 units. This remains 6.8 percent below the June level. The September rise was accompanied by a 0.9 percentage point increase in the NAR Affordability Index from 81.5 in August to 82.4. Housing starts fell 13 percent to 1,652,000 units in September while building permits fell 9 percent from the August level.

With 9 months data in and no major changes in mortgage interest rates foreseen, it looks like sales of existing single-family homes for 1983 should be 2,740,000, an increase of about 38 percent over the 1982 level. Rising income and modest declines in mortgage interest rates should enhance affordability in

1984, boosting resales to the 2.9-3.0 million unit level. Affordability index should average 85.5 for 1984, up from 82.1 in 1983. Rising mortgage rates and a much reduced level of economic growth should cause resales to retreat to 2.7 million level in 1985.

Similarly, a total of 1.7 million housing units should be started for all of 1983, an increase of 61 percent over the 1982 level. Starts should increase about 3 percent to 1.75 million units in 1984, with growing inventories of unsold homes restraining the increase in starts somewhat. In 1985 starts are expected to drop 8 percent to 1.6 million units.

The serious affordability problem posed by high interest rates is restraining price increases of existing homes. For all 1983 the median price of existing single-family homes sold should rise just 3.3 percent to $69,900, about equal to the overall rate of inflation for the year. In 1984 the median price of resales should rise a little over 6 percent. However, in 1985 the rate of price increase should fall back to between 5 and 6 percent, somewhat lower than the inflation rate. The median price of new single-family homes sold should rise by 9 percent for all of 1983 and between 8 and 9 percent during 1984, much faster than inflation.

Commercial construction rebounded strongly during the third quarter. Office vacancy rate should peak during the fourth quarter and fall sharply in during 1984 as the vacant space is absorbed in an expanding economy. After an expected decline of 1.3 percent in 1983 the value of new commercial building construction put in place should rise 17 percent in 1984 and 13 percent in 1985. Industrial construction should turn around during the fourth quarter of this year, but the rebound will be relatively modest. After an expected decline of 22 percent for all of 1983 the value of industrial construction put in place should rise 7 percent in 1984 and 12 percent in 1985.

The Relationship Between Federal Deficits and Interest Rates

(adapted from testimony by Dr. Jack Carlson before the Joint Economic Committee October 21, 1983)

Most economists and political leaders realize the damage done by persistently high federal deficits. In his 1983 Economic Report, President Reagan states:

> Federal borrowing competes with private investment for available savings. If the government continues to borrow large amounts to finance its deficit, the real interest rate will remain high and discourage private investment. This process of 'crowding out' will tend to depress private investment in the years ahead unless the budget deficit is progressively reduced.[1/]

[1/] Economic Report of the President, February 1983, p.5.

However, on September 8, in a speech before the Chemical Manufacturers Association, the President's chief economic spokesman, Secretary of the Treasury Donald Regan said that deficits "...cause a lot of problems. It just happens that high interest rates are not one of them." The Secretary went on to imply that "...the banks and other financial institutions..." are to blame for the fact that "...real interest rates...remain unusually high." He concluded that there is no "...good reason--or...excuse--for those rates to be as high as they are."

We were very surprised at the limited basis for Secretary Regan's statement. He was an experienced financial entrepreneur and had complained of the adverse effect of deficits from that vantage point. Nonetheless, he set aside his own past views and based his remarks upon a 22-page report that he described as "... an exhaustive study..." which proved that "...there simply is no empirical evidence that correlates deficits and interest rates."[2/] We thoroughly reviewed this report and found it to be neither exhaustive nor conclusive. In modesty the report concludes that "...economic theory yields only an ambiguous answer to the question whether large Federal deficits cause high interest rates..." Most economists would agree that this is an empirical issue. Yet the sole empirical evidence presented to support the claim that there is no statistically significant relationship between deficits and interest rates is two charts, one plotting over a 30-year period the nominal and real or inflation-adjusted Aaa bond rate against the real federal deficit as a percent of Gross National Product (GNP) while the other plots private borrowing as a percent of GNP against government borrowing as a percent of GNP over the same 30-year period. These charts do not take into account inflation expectations or monetary policy, two very important additional determinants of interest rates. Further, the report fails to recognize studies which have found a significant relationship between deficits and interest rates.

To accurately assess the impact of deficits on interest rates requires a more sophisticated analysis that takes into account all factors which influence the level of interest rates. The equation we have specified is the basic long-term interest rate equation used in large-scale econometric models for nearly 10 years. Contrary to the assertion of the Treasury study, this analysis reveals a statistically significant positive relationship between an increase in privately held federal debt and the Aaa corporate bond rate.

The key to empirically isolating the impact of federal deficits on interest rates is to hold other things constant; that is, account for the other major determinants of interest rates such as monetary policy, private demand for loanable funds, and expected inflation. Based on our own empirical analysis, Table 2 presents a decomposition of the Aaa corporate bond rate over the 12-year period from 1971 to 1983. This decomposition presents the portion of the interest rate which is attributable to the following four fundamental determinants of long-term interest rates:

2/"Government Deficit Spending and its Effects on Prices of Financial Assets," U.S. Department of the Treasury (Washington, D.C.: Government Printing Office, May 1983).

(1) Growth in the Monetary Base Relative to the Growth in the Private Demand for Money

The FED controls the monetary base, which equals currency held by the public plus nonborrowed reserves of the commercial banking system. The FED can increase the monetary base through net purchases of federal debt instruments. Private demand for money increases with the growth of GNP. In general, an increase in the monetary base relative to GNP acts to reduce the interest rate while a decrease in the monetary base relative to GNP acts to increase the interest rate.

(2) Increases in the Stock of Privately Held Federal Debt

Increases in federal debt must be absorbed into the portfolios of private investors and so compete directly with corporate bonds and mortgages. If the increase in federal debt is large relative to the supply of loanable funds, there will be upward pressure on interest rates.

(3) Expected Inflation

An increase in expected inflation will cause the interest rate to rise as investors attempt to protect their funds from the erosion of purchasing power associated with inflation.

(4) Market Expectations

If investors expect interest rates to rise in the future, current interest rates will rise. Conversely, if interest rates are expected to fall, current rates will fall.

From Table 2 we can see that in the early 1970s the increase in privately held federal debt due to federal deficits was absorbed into private portfolios with little if any upward pressure on interest rates. The real rate of interest, which equals all components except expected inflation, was about 4 percent while expected inflation added 3 to 4 percentage points.

Beginning in 1975 the size of the federal deficits increased relative to the pool of savings and private credit demands, creating upward pressure on long-term interest rates. At the same time the economy's demand for money increased relative to the monetary base. By 1978 the real rate rose to around 5 percent while expected inflation was adding 4.5 to 5 percentage points.

Deficits moderated somewhat in the late 1970s, so that the percentage points attributable to the federal debt plateaued at about 0.40. The real rate rose to about 5.25 percent as the demand for money continued to increase relative to the monetary base. By the end of the decade inflation was accelerating, with inflation expectations adding 5 percentage points.

Table 2

Direct Impact of Factors Affecting the Aaa Corporate Bond Rate

Year	Monetary Policy	Federal Debt	Inflation Expectations	Market Expectations	Total Fitted	Total Actual
1970	3.68	.18	2.97	.03	6.86	8.04
1971	3.71	.07	3.19	-.02	6.95	7.39
1972	3.87	.04	3.15	-.01	7.05	7.21
1973	4.09	.06	3.20	.01	7.36	7.44
1974	4.09	.03	4.33	.04	8.49	8.57
1975	4.14	.12	4.76	-.01	9.01	8.83
1976	4.18	.31	4.39	-.12	8.76	8.43
1977	4.40	.37	3.78	-.13	8.42	8.02
1978	4.57	.40	4.00	.02	8.99	8.73
1979	4.83	.43	4.55	.02	9.83	9.63
1980	5.11	.54	6.13	.06	11.84	11.94
1981	5.53	.62	7.68	.09	13.92	14.17
1982	5.36	.77	7.27	-.03	13.37	13.79
83:1	5.17	.94	5.68	-.22	11.57	11.84
83:2	5.18	1.00	5.34	.00	11.52	11.57
Forecast						
83:3	5.25	1.01	5.90	-.03	12.13	--
83:4	5.26	1.03	5.92	.07	12.28	--
84:1	5.28	1.06	5.89	.02	12.25	--
84:2	5.29	1.10	5.90	-.01	12.28	--
84:3	5.31	1.10	5.89	.01	12.31	--
84:4	5.32	1.11	5.91	.00	12.34	--
85:1	5.33	1.15	5.92	.01	12.41	--
85:2	5.36	1.19	5.94	.02	12.51	--
85:3	5.39	1.20	5.96	.02	12.57	--
85:4	5.43	1.21	6.00	.02	12.66	--

Source: NATIONAL ASSOCIATION OF REALTORS®.

As we entered the 1980s, interest rates were pushed up in all directions. Massive federal deficits could not be absorbed without substantial increases in real interest rates. Because of the need to offset the inflationary potential of loose fiscal policy and the sharp increase in oil prices, the FED adopted restrictive growth targets for the major monetary aggregates which substantially reduced the monetary base relative to the demand for money, also boosting real rates. Inflation accelerated well into the double-digit range, with inflation expectations adding nearly 8 percentage points to the Aaa corporate bond rate in 1981.

In late 1982 and through the second quarter of 1983 the FED increased the monetary base relative to the demand for money. However, by the second quarter of 1983 the burden of financing the rapidly growing federal debt was adding 1 full percentage point to the real rate. Thus the real rate remains at just over 6 percent, virtually the same as in 1981. By the second quarter of 1983, a substantial reduction in inflation did result in about a 2 percentage point decline in the nominal rate from its peak in 1981.

It is evident from this analysis why the consensus forecast of financial economists is for interest rates to remain high and perhaps rise somewhat during 1984 and 1985 unless some action is taken to substantially reduce the federal deficit. The rapidly growing federal debt will put increasing pressure on the real rate of interest, particularly as the recovery proceeds and private credit demand increases. The FED appears determined to hold onto the hard won reduction in inflation and so is unlikely to use its policy power to substantially lower the real rate by increasing the monetary base. Even if attempted, it would likely be futile since the more rapid growth of the monetary base would serve to heighten inflation expectations. Finally, with the prospect of a $100 to $150 billion deficit when the economy is at full employment, the so-called structural deficit, the only likely course for inflation expectations is to remain at current levels (6 to 9 percent over the next several years) or even rise slightly, despite the low level of current inflation.

These results also explain why interest rates fell from 1974 to 1977 despite the fact that the federal deficit rose substantially over this period. As seen in Table 2 the primary reason was a steep decline in inflation expectations. In the wake of the recession from November 1973 to February 1975, the annualized percent change in the GNP deflator fell from a peak of 12.1 percent during the fourth quarter of 1974 to 3.6 percent during the first quarter of 1976. Thus, while the sharp increase in federal debt during this period was pushing interest rates up, this effect was more than offset by the decline in inflation expectations. Moreover, during the 1973 to 1977 period, the FED annually purchased on average 12.6 percent of the federal debt issued. In contrast, from 1980 to 1982 the FED purchased just 4.8 percent of the newly issued federal debt. This much more accommodative stance also helped bring interest rates down over the 1974 to 1977 period.

The analysis also suggests that credible steps taken now to reduce the deficit, such as the REALTORS® Three-FOR-ALL Program, could in a very short time reduce long-term interest rates by at least one percentage point and perhaps by as much as 2 to 3 percentage points. Elimination of the structural deficit would likely reduce inflation expectations sufficiently to reduce long-term rates by at least one percentage point in just 6 to 9 months. The reduction in inflation expectations would in turn permit the FED to adopt a slightly more

accommodative stance. Over the long run, long-term rates would continue to edge down as the economy grows and the much slower growing federal debt is absorbed into private portfolios.

Table 3

Likely Impact of THREE-FOR-ALL

Program on Aaa Corporate Bond Rate*

Year	Monetary Policy		Federal Debt		Inflation Expectations		Market Expectations		Total Difference
	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	
83:3	5.25	5.25	1.01	1.01	5.90	5.90	-.03	-.03	0.0
83:4	5.26	5.25	1.03	1.02	5.92	5.42	-.02	-.02	-.61
84:1	5.28	5.20	1.06	1.05	5.89	4.92	.02	-.03	-1.11
84:2	5.29	5.16	1.10	1.04	5.90	4.88	-.01	-.04	-1.24
84:3	5.31	5.12	1.10	1.05	5.89	4.81	.01	-.01	-1.31
84:4	5.32	5.08	1.11	1.05	5.91	4.80	.00	.00	-1.41
85:1	5.33	5.06	1.15	1.04	5.92	4.78	.01	.00	-1.53
85:2	5.36	5.04	1.19	1.03	5.94	4.76	.02	.00	-1.68
85:3	5.39	5.02	1.20	1.02	5.96	4.74	.02	.00	-1.79
85:4	5.43	5.00	1.21	1.01	6.00	4.72	.02	.00	-1.93
86:1	5.44	4.97	1.24	1.00	6.02	4.67	.01	-.01	-2.08
86:2	5.45	4.94	1.26	.98	6.04	4.63	.02	.00	-2.22
86:3	5.46	4.90	1.29	.97	6.06	4.60	.02	-.01	-2.37
86:4	5.47	4.86	1.31	.96	6.08	4.58	.01	-.01	-2.48
87:1	5.48	4.85	1.34	.93	6.10	4.54	.02	.00	-2.62
87:2	5.49	4.84	1.36	.89	6.12	4.52	.01	.00	-2.73
87:3	5.50	4.83	1.38	.84	6.14	4.50	.02	-.01	-2.88
87:4	5.51	4.82	1.40	.78	6.16	4.48	.01	-.01	-3.01
88:1	5.52	4.81	1.42	.70	6.18	4.46	.01	.00	-3.16
88:2	5.53	4.80	1.43	.62	6.20	4.44	.01	-.01	-3.32
88:3	5.54	4.79	1.45	.54	6.22	4.43	.02	.00	-3.47
88:4	5.55	4.78	1.46	.48	6.24	4.41	.01	.00	-3.59

*Table assumes THREE-FOR-ALL Program is implemented for FY84.

Table 4

U.S. ECONOMIC OUTLOOK — NOVEMBER 1983

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,272	3,363	3,464	3,559	3,649	3,731	3,809	3,884	2,954	3,073	3,318	3,687	3,997
Percent Change	13.3	11.6	12.5	11.4	10.4	9.3	8.6	8.1	12.2	4.0	8.0	11.1	8.4
Percent Change (without inflation)	9.7	7.9	5.9	5.0	3.9	2.9	2.0	1.9	2.6	-1.9	3.4	5.1	2.1
Consumption	10.0	3.5	4.3	4.5	3.7	2.9	2.2	1.9	2.7	1.4	4.3	4.2	2.2
Durables	32.6	5.7	14.4	9.2	6.7	4.7	2.1	0.7	2.7	-0.9	11.7	9.4	2.0
Nondurables	6.4	5.1	2.3	2.8	2.4	1.8	1.7	1.5	1.9	0.5	3.3	2.9	1.6
Services	6.4	1.4	2.7	4.4	3.8	3.2	2.7	2.5	3.3	2.9	2.8	3.4	2.6
Residential Investment	78.6	36.9	-1.1	4.3	3.9	12.8	3.1	-8.8	-5.2	-15.3	40.0	11.0	-2.6
Nonresidential Investment	8.0	14.7	8.4	7.9	7.7	7.1	6.8	6.7	5.2	-4.7	-0.1	8.6	6.5
Structures	-14.9	11.5	4.5	6.2	6.1	5.9	5.6	5.5	7.5	1.8	-7.0	5.0	4.5
Equipment	19.8	15.9	10.2	8.6	8.4	7.5	7.3	7.2	4.2	-7.5	3.2	10.2	7.1
Exports	-3.2	11.3	5.4	4.5	4.2	4.6	5.4	5.5	0.4	-7.8	-6.3	3.4	5.1
Imports	26.6	25.4	6.6	5.2	6.3	5.0	5.0	4.1	7.3	1.4	6.6	9.1	4.1
Government Purchases	-1.1	5.6	1.2	8.3	4.0	3.3	2.7	0.5	0.8	1.8	0.9	4.2	1.9
Consumption (% of GNP)	66.3	65.6	65.3	65.3	65.2	65.2	65.3	65.3	63.2	65.3	65.8	65.2	65.3
Residential Investment (% of GNP)	3.4	3.7	3.6	3.6	3.6	3.7	3.7	3.8	2.9	2.5	3.4	3.6	3.5
Nonresidential Investment (% of GNP)	10.7	10.9	10.9	11.0	11.1	11.2	11.3	11.5	11.5	11.2	10.8	11.2	11.6
Inventory Change ($ billions)	-14.5	11.8	36.0	31.7	31.4	24.1	16.1	16.6	18.4	-24.6	-1.5	25.8	12.3
Mfg. Capacity Utilization Rate (%)	74	77	80	81	81	81	82	81	79	71	75	81	82
Auto Sales (millions of units)	9.2	9.3	9.9	10.1	10.4	10.7	10.6	10.6	8.5	8.0	9.2	10.5	10.5
Manufacturing Industrial Production (% change)	21.0	21.9	16.6	7.2	3.4	3.5	2.5	1.4	2.4	-8.5	8.1	9.8	2.3
Common Market	-0.9	-5.0	5.7	2.6	3.1	0.4	1.0	3.7	-1.5	-1.7	-0.4	1.7	1.9
Japan	5.8	7.9	6.5	8.9	4.1	2.4	3.5	7.4	1.0	0.4	2.5	6.0	4.9
Employment (millions)	99.9	101.6	102.8	103.8	104.6	105.3	105.9	106.3	100.4	99.5	100.9	104.9	106.9
Unemployment Rate (%)	10.1	9.4	8.8	8.5	8.3	8.2	8.2	8.3	7.6	9.7	9.7	8.3	8.4
Disposable Income per Household (average)	28,526	29,208	30,012	30,822	31,442	32,028	32,624	33,379	25,837	27,206	28,945	31,729	34,257
Percent Change -- Year Ago (w/o inflation)	1.2	2.9	4.1	4.9	4.8	3.7	2.6	2.1	2.2	-0.4	2.3	4.0	1.9
Total Taxes per Household (average)	14,025	14,011	14,407	14,834	15,164	15,493	15,779	15,979	13,187	13,205	13,982	15,318	16,386
Percent Change -- Year Ago	5.8	6.1	8.8	10.0	8.1	10.6	9.5	7.7	11.7	0.1	5.9	9.6	7.0
Percent of Disposable Income	49.2	48.0	48.0	48.1	48.2	48.4	48.4	47.9	51.1	48.5	48.3	48.3	47.8
Household Debt as Percent of Disposable Income	79.1	79.3	79.2	79.1	79.4	79.7	80.2	80.3	78.3	78.1	79.0	79.6	80.8
Consumer Price Inflation (CPI)	4.2	4.8	5.8	6.6	6.8	6.6	6.5	7.7	10.3	6.2	3.3	6.1	7.1
Gross National Product Inflation (GNP Deflator)	3.3	3.4	6.3	6.2	6.3	6.2	6.5	6.1	9.4	6.0	4.3	5.7	6.1
Personal Consumption Inflation	4.6	3.8	5.0	5.9	6.0	6.0	6.0	6.2	8.4	5.8	4.0	5.4	6.0
Residential Construction Inflation	-2.2	5.1	4.6	6.8	8.9	9.3	9.4	8.8	7.0	2.8	2.2	6.5	8.7
Nonresidential Construction Inflation	-0.5	-1.5	3.5	7.0	9.0	8.8	8.5	8.0	11.6	4.7	-0.7	5.3	8.0
Producers Price Inflation (WPI)	1.0	4.2	7.2	6.5	7.1	7.5	7.5	8.2	9.1	2.0	1.5	6.3	7.5
Compensation per Manhour (% change)	4.3	3.7	5.8	10.1	8.9	8.8	8.7	8.5	9.7	7.9	5.7	7.6	8.3
Productivity (% change)	6.0	3.6	2.4	2.7	2.5	2.2	2.0	1.7	1.9	0.0	3.2	2.8	1.8
Unit Labor Cost (% change)	-1.8	0.2	3.2	7.2	6.3	6.5	6.6	6.7	7.7	7.9	2.5	4.7	6.4
Unit Capital Cost (% change)	7.5	6.6	5.9	5.4	5.2	5.0	4.8	4.7	10.7	9.8	7.1	5.1	4.7
Before Tax Corporate Profits ($ billions)<1>	213	234	259	267	272	279	286	295	251	190	222	276	302
Corporate Tax Liability	76	81	93	97	99	102	104	107	83	59	78	100	109
'Windfall Profits' Tax Receipts	10	9	11	11	12	11	11	14	24	16	11	11	14
After Tax Profits	127	144	154	159	162	166	170	175	144	115	134	164	178
Inventory Valuation Adjustment	-11	-15	-18	-20	-23	-26	-28	-31	-24	-8	-11	-25	-30
Capital Consumption Adjustment	26	38	42	43	44	44	44	43	-11	-1	30	44	43
Profits from Current Production (with IVA, CCA)	142	167	178	181	183	184	186	187	110	106	152	183	192
Adjusted for Inflation (82:1 base)	135	157	165	165	164	163	162	160	114	104	143	163	161
Percent Change - Year Ago	29.6	49.5	57.9	43.5	21.7	3.5	-1.9	-3.0	10.3	-8.9	37.7	14.3	-1.5
Per Unit of Output (% of GNP)	4.3	5.0	5.1	5.1	5.0	4.9	4.9	4.8	3.7	3.4	4.6	5.0	4.8
Effective Corporate Tax Rate (%)<1>	35	33	35	35	35	36	36	37	43	37	34	36	37
Federal Tax Receipts (Unified basis)	666	612	592	610	705	693	653	656	620	608	608	685	745
Federal Expenditures (Unified basis)	783	773	843	878	889	849	924	960	698	740	800	885	967
Surplus or Deficit (Unified basis)	-117	-161	-250	-268	-184	-155	-271	-304	-78	-131	-193	-200	-222
% of GNP	3.6	4.8	7.2	7.5	2.8	4.2	7.1	7.8	3.7	4.2	5.8	5.4	5.6
% of Personal Savings	127.6	144.9	191.6	187.4	72.5	108.6	183.6	184.2	83.0	106.1	166.1	138.0	129.2
% of Total Private Savings	21.8	27.5	40.6	42.2	16.1	23.9	40.8	44.0	21.7	25.0	33.7	30.7	31.0

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

Table 5

REAL ESTATE AND FINANCIAL MARKETS — NOVEMBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,857	2,747	2,757	2,869	2,954	3,047	2,948	2,846	2,419	1,990	2,736	2,954	2,735
Percent Change - Year Ago	46.3	45.1	29.2	11.1	3.4	10.9	6.9	-0.8	-18.6	-17.7	37.5	8.0	-7.4
Dollar Volume (billions)	235.9	231.0	226.6	242.0	253.1	267.6	253.1	250.3	189.4	160.2	225.3	254.0	246.0
Existing Home Prices - Median ($1000's)	69.8	71.2	70.2	72.5	74.0	76.2	74.7	76.7	66.4	67.8	69.9	74.3	78.6
Percent Change - Year Ago	2.5	4.0	4.2	6.0	6.0	6.9	6.5	5.8	6.8	2.1	3.1	6.4	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	619	663	649	667	667	674	661	694	742	754	641	667	721
Percent of Household Income	22	23	22	22	22	22	21	21	29	28	23	22	22
NAR Affordability Index	82.0	81.8	84.9	84.7	84.6	84.4	88.3	86.2	68.9	69.5	82.1	85.5	85.4
New Single-Family Home Sales (thousands)	655	589	598	633	657	677	658	639	437	417	612	656	602
Percent Change - Year Ago	79.4	44.1	15.4	4.6	0.3	15.0	9.9	1.0	-19.9	-4.4	46.6	7.3	-8.2
New Home Prices - Median ($1000's)	75.0	76.4	77.4	78.9	80.8	82.9	85.0	87.1	68.8	69.3	75.5	81.9	90.0
Percent Change - Year Ago	7.8	9.8	8.1	7.7	7.7	8.5	9.8	10.3	6.4	0.7	9.0	8.5	9.8
New Home Prices--Mean ($1000's, Quality Adjusted)	88.7	90.6	90.5	94.0	94.1	96.4	96.6	100.4	85.5	87.8	89.7	95.3	102.2
Percent Change - Year Ago	-0.1	3.4	5.4	5.6	6.1	6.4	6.7	6.8	8.8	2.8	2.2	6.2	7.2
New Mortgage Commitments ($ billions)	154.0	134.0	143.5	152.7	163.2	175.8	180.9	175.6	60.0	64.8	143.8	168.2	178.3
Percent Change - Year Ago	219.9	134.6	51.9	6.3	6.0	31.3	26.1	15.0	-31.2	8.1	121.8	17.0	6.1
Mortgage Debt Outstanding ($ billions)	1,724	1,766	1,792	1,823	1,863	1,910	1,959	2,007	1,544	1,628	1,741	1,889	2,086
Homeowners' Equity ($ billions)	2,537	2,615	2,679	2,739	2,800	2,871	2,955	3,043	2,345	2,396	2,578	2,841	3,172
Housing Inventory (millions)	91.6	92.0	92.4	92.8	93.1	93.6	94.0	94.4	89.7	90.6	91.8	93.4	94.9
Private Housing Starts (thousands)	1,683	1,788	1,656	1,673	1,765	1,841	1,717	1,597	1,100	1,059	1,705	1,749	1,609
Single-Family	1,104	1,061	1,014	1,049	1,147	1,214	1,137	1,068	713	663	1,064	1,137	1,074
Multi-Family	579	728	642	624	618	627	580	529	386	395	641	612	535
Mobile Home Shipments (thousands)	299	309	302	306	311	320	316	306	240	239	298	313	308
Rental Vacancy Rate (%)	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.0	5.3	5.5	5.3	5.4
Unsold New Homes (% of sales)	39.8	46.6	45.3	46.1	46.9	47.5	48.5	50.1	75.4	65.2	43.2	47.2	52.4
Office Vacancy Rate (%)<1>	11.7	11.8	11.9	11.6	11.2	10.6	10.0	10.0	4.3	8.0	11.6	10.8	10.0
Industrial Vacancy Rate (%)<1>	4.9	5.0	5.2	5.1	4.9	4.7	4.6	4.5	3.7	4.4	5.0	4.8	4.5
New Commercial Building Construction (% Ch Value)	-24.3	35.4	26.5	16.4	15.2	18.0	15.9	14.2	14.2	9.0	-1.3	17.2	13.3
New Industrial Building Construction (% Ch Value)	-34.9	-3.0	14.1	14.1	12.0	13.3	14.6	10.4	22.0	2.5	-22.2	7.4	12.1
FINANCIAL MARKETS													
Personal Savings Rate (%)	4.0	4.7	5.4	5.7	5.6	5.5	5.5	6.0	6.6	5.8	4.9	5.6	6.1
Money Supply (M1: % change)(FED Target 5-9%)	12.8	9.3	4.0	6.4	7.0	6.6	4.7	5.7	7.1	6.5	11.0	6.7	5.9
Money Supply (M2: % change)(FED Target 7-10%)	10.5	8.1	6.8	11.4	10.5	9.6	8.1	7.4	9.5	9.4	12.4	9.5	8.4
Total Time and Savings Deposits (% change)	-4.9	7.9	12.3	11.4	11.3	12.4	12.0	9.8	8.8	7.1	-0.9	10.2	11.3
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.0	13.7	13.6	13.6	13.3	13.0	13.0	13.3	16.7	16.6	13.5	13.2	13.5
Real Mortgage Rate	9.8	10.3	7.3	7.4	7.0	6.8	6.5	7.2	8.0	12.2	8.9	6.9	7.4
Assumption Rate	10.0	10.1	10.2	10.2	10.2	10.1	10.1	10.2	10.5	10.5	10.1	10.2	10.2
Seller Take Back Mortgage Rate	10.6	10.8	10.9	10.9	10.9	10.8	10.8	10.9	11.8	11.7	10.8	10.9	10.9
Blended Rate	12.3	12.7	12.7	12.6	12.5	12.3	12.3	12.6	14.2	14.4	12.6	12.4	12.7
Corporate Bond Rate (AAA)	11.6	12.3	12.2	12.1	11.9	11.6	11.6	11.9	14.2	13.8	12.0	11.8	12.2
Government Bond Rate	10.1	11.3	11.3	10.9	10.5	10.1	10.4	10.8	14.3	13.0	10.6	10.5	10.9
Real Long-term Government Bond Rate	6.8	7.8	4.9	4.8	4.2	3.9	4.0	4.7	5.6	8.6	6.0	4.2	4.9
Federal Funds Rate	8.8	9.5	9.5	9.3	9.1	8.7	9.1	9.4	16.4	12.3	9.1	9.1	9.7
3 Month Treasury Bills	8.4	9.1	8.9	9.0	8.7	8.4	8.7	9.0	14.0	10.6	8.6	8.7	9.1
1 Year Treasury Bills	9.2	10.3	10.0	10.1	9.8	9.4	9.7	10.0	14.8	12.3	9.6	9.7	10.2
Commercial Paper Rate	8.6	9.3	9.0	9.3	8.9	8.6	9.0	9.4	15.3	11.9	8.8	9.0	9.7
Rate on Money Market Fund Shares	8.7	9.5	9.2	9.3	9.0	8.8	9.1	9.5	15.7	12.1	9.0	9.0	9.8
Prime Rate	10.5	10.8	11.0	10.9	10.8	10.2	10.4	10.7	18.9	14.9	10.8	10.6	11.2

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS,·and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Summary

Overall, 1984 should continue the record strong growth in economic activity as the recovery from the recent recession enters its second year. Gross National Product--the nation's output of all goods and services--is expected to increase by nearly 5 percent in 1984. Employment should improve with nearly 4 million new jobs created in 1984. Despite an overall recovery, inflation is forecast to rise only moderately to 6 to 7 percent in 1984 and 1985. All this good news goes well with the incumbent public officials' standing in the next election.

However, in some sectors of the economy, the strength of the upturn will be below the average of past recoveries. Residential real estate activity will improve only slightly in 1984 as long-term interest rates remain high. Resales of single-family homes are expected to be just under 3 million units this year or more than a million units below normal levels. New home construction will maintain last year's fairly robust pace of 1.7 million units--still below the 2 million plus units needed to satisfy the underlying demand for housing. Business investments and exports will similarly fail to reach the levels necessary to sustain a strong inflation-free recovery. The culprit for this sub-par performance in investment in housing, equipment, structures and exports continues to be high long-term interest rates in the current climate of low inflation. These high interest rates in turn are due to the continued prospects for record federal deficits even as the economic activity expands and the consequent need for restraining monetary policy.

Aggregate Economy

The recovery is now maturing and, as expected, the rate of economic growth is slowing. In its "flash estimate" the Commerce Department predicts that real or inflation-adjusted Gross National Product (GNP) increased just 4.5 percent during the fourth quarter of 1983, down from 7.6 percent during the third quarter. This trend towards slower growth is likely to continue throughout 1984, falling to the 2 to 3 percent range by the fourth quarter of next year. The more modest growth for 1984 will reflect only modest growth in investment in housing and business, which typically spurs the economy in the latter stages of recovery. High interest rates are changing the composition of growth--more consumption and less increase in capacity to grow in the future. However, overall, 1984 should be a prosperous year with real GNP a full 5 percent above the 1983 levels.

Consumer spending and business inventory accumulation continue to make the largest contribution to GNP growth at this point in the recovery. Overall, consumption expenditures are expected to have increased 5 percent during the fourth quarter of 1983 due primarily to strong sales of automobiles. Total retail sales of new passenger cars during the fourth quarter are estimated at a seasonably adjusted annual rate of 9.9 million units (7.4 million domestic, 2.4 million imported), up from a 9.3 million rate during the third quarter (6.9 million domestic, 2.3 million imported). Inventory accumulation during the fourth quarter proceeded at a $26 billion annual rate, up from $9 billion during the third quarter. In fact, during the fourth quarter inventory accumulation alone contributed about one-third of the increase in GNP.

While retail sales of new passenger automobiles should rise to an annual rate of 10.5 million units (8.1 million domestic, 2.4 million imported) by the fourth quarter of 1984, growth in total consumption expenditures and inventory accumulation will slow significantly during 1984. By the fourth quarter, growth in consumption expenditures is expected to be down to the 2 to 3 percent range while inventory accumulation should be down to an annual rate of $23 billion. This slow-down in consumption growth is normal for this stage of the recovery as income growth slows and the personal savings rate climbs to more normal levels.

Residential investment is essentially stalled at current levels as mortgage rates have plateaued at 13.5 percent. Modest declines in mortgage rates should boost residential investment by just under 10 percent in 1984 compared to growth of nearly 40 percent in 1983. The increase in interest rates during the early stages of this recovery has virtually exhausted the contribution of residential investment to economic growth.

The primary cause of the much steeper than normal decline in real GNP growth expected for 1984 is the weak growth in residential and nonresidential investment. Moreover, current economic conditions favor investment in short-lived assets over long-lived assets. Because of high real interest rates and low levels of utilization of existing capacity, investment in nonresidential structures should remain particularly weak in 1984, increasing a modest 5 percent. In contrast, business investment in new equipment is expected to increase nearly 11 percent in 1984 compared to an increase of just under 4 percent for 1983.

Despite the modest recovery of the world economy currently underway, U.S. export growth is expected to be modest in 1984. The U.S. dollar's trade-weighted exchange value is now about 30 percent above its 1980 level, equivalent to imposition of a 30 percent sales tax on exports, severely reducing the competitiveness of U.S. products in world markets. As the recovery has boosted demand for imports, the merchandise trade deficit has worsened from $35 billion in 1982 to an estimated $60 billion for 1983 and is expected to rise to $75 to $100 billion in 1984.

Rapid job creation at this stage of the recovery has produced spectacular declines in the unemployment rate in recent months. The unemployment rate for civilian workers declined 0.5 percentage points in November to 8.4 percent. Employment growth should be more modest through 1984 with the unemployment rate falling to a low 8.0 percent by the fourth quarter. In 1985 the unemployment rate should begin to increase due to the slower growing economy.

Inflation continues to run below 5 percent but promises to accelerate in 1984 and 1985. In November the Consumer Price Index (CPI) rose just 0.3 percent, the smallest monthly increase since June. For all of 1983 the CPI should rise just 3.2 percent, the lowest annual increase since 1967. However, as the economy achieves a higher overall level of utilization, labor costs should begin to rise faster than productivity, leading to larger increases in the prices of products and services. Inflation should rise to 6 percent in 1984 and 7 percent in 1985.

Monetary Policy and Interest Rates

Interest rates remained essentially unchanged during the last two months of 1983. While credit demand was relatively weak, suggesting that interest rates could have fallen, credit markets remained very uncertain over the policy stance of the Federal Reserve Board (FED). It appears that the Fed's primary objective is to prevent an acceleration of inflation, even if it means further restricting

the growth of the money supply and thereby raising interest rates. However, the news that both economic growth and inflation were lower during the fourth quarter than most analysts had anticipated suggests that no further tightening of credit is needed. In fact, the Fed now has room to be somewhat more accomodative during the next six months.

Table 1

Compound Annual Rates of Growth of
Alternative Measures of the Money Supply

	Narrowly Defined Money Stock M1	M2	M3
1983			
July	9.3%	6.6%	5.7%
August	2.8%	6.2%	8.7%
September	0.9%	4.7%	7.4%
October	1.9%	9.7%	8.9%
November^{P}	0.7%	8.1%	13.3%
FED Targets	5-9% a/	7-10% a/	6.5-9.5% b/
1984			
Forecast	5.5%	8.4%	8.8%

P Preliminary
a/ For the period from 83:2 to 83:4.
b/ For the period from 82:4 to 83:4.
M1 Represents the sum of currency, checkable deposits and traveller's checks.
M2 Equals M1 plus savings and small time deposits, Eurodollar balances, overnight RPs and MMMF balances.
M3 Equals M2 plus large time deposits and term RPs.

During the first half of 1984 the Fed will probably ease its stance somewhat, allowing the money supply to increase to the upper end of its target ranges. This, along with relatively weak private credit demand, should cause interest rates to decline modestly during the first six to nine months of the year. The mortgage commitment rate may drop from its current level of 13.5 percent to just under 13.0 percent by the third quarter of 1984. Short-term rates should also drop about half a percentage point over this period.

However, beginning in the last quarter of 1984 and through 1985 interest rates are expected to increase. Accelerating inflation should lead the Fed to again restrict the growth of the money supply while private credit demand increases.

Real Estate Markets

Sales of existing single-family homes rose 0.8 percent in November to a seasonally adjusted annual rate of 2,630,000 units. November sales were 10.5 percent below the 1983 peak rate reached in June. The NAR Affordability Index

rose C.2 percentage points in November to 84.9 due to gains in family income. Housing starts increased 6.4 percent in November to a seasonally adjusted annual rate of 1,756,000 but remained 7.8 percent below the October level.

With 11 months data in and little, if any, changes in mortgage interest rates foreseen, it looks as though a total of 2,600,000 existing single-family homes will have changed hands during 1983, an increase of 36 percent over the 1982 level. Rising incomes and modest declines in mortgage interest rates should enhance affordability in 1984, boosting sales of existing homes to the 2.9-3.0 million unit level. The Affordability Index should average 87 for 1984, up from 83 for 1983. However, rising mortgage rates and a much reduced level of economic growth should cause resales to retreat to 2.7 million units in 1985.

Similarly, a total of 1.7 million housing units should be started for all of 1983, an increase of 60 percent over the 1982 level. Starts should increase slightly about 2 percent to 1.73 million units in 1984, with growing inventories of unsold homes restraining the increase in starts somewhat. In 1985 starts are expected to drop 6 percent to 1.6 million units.

The serious affordability problem posed by high interest rates is restraining price increases of existing homes. For all 1983, the median price of existing single-family homes sold should rise just 3.3 percent to $69,900, about equal to the overall rate of inflation for the year. In 1984 the median price of resales should rise a little over 6 percent. However, in 1985 the rate of price increase should fall back to between 5 and 6 percent, somewhat lower than the inflation rate. The median price of new single-family homes sold should rise by 11 percent for all of 1983 and similarly rise during 1984, much faster than inflation.

After a poor 1983, nonresidential construction activity should rebound in 1984. Overall nonresidential investment declined by 7 percent in 1983 primarily as the result of a collapse in industrial construction. Boosted by a significant improvement in capacity utilization in manufacturing, slow growth in construction costs and an improving economy, nonresidential investment in 1984 is expected to increase just over 5 percent. Only continued high long-term interest rates will prevent a recovery of activity back to 1982 levels.

Commercial construction continued to improve during the fourth quarter of 1983. The office vacancy rate should have peaked during the fourth quarter at a record high 11.9 percent and should fall during 1984 as the vacant space is absorbed in an expanding economy. The large supply of new vacant office space, however, is expected to restrain new office construction next year in most areas.

After an expected decline of 3 percent in 1983, the value of new commercial building construction put in place should rise 13 percent in 1984 and 15 percent in 1985.

Industrial construction also continued to improve during the fourth quarter of 1983, but the rebound will be relatively modest. After the disastrous decline of 22 percent for all of 1983, the value of industrial construction put in place should rise 5 percent in 1984 and 11 percent in 1985. Construction activity is forecast to be strongest next year in the transportation sectors--particularly for motor vehicles and parts--fabricated metals, food and paper industries.

Table 2

U.S. ECONOMIC OUTLOOK

JANUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual	Forecast			
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,272	3,360	3,444	3,537	3,624	3,705	3,787	3,850	3,073	3,312	3,663	3,953	4,227
Percent Change	13.3	11.2	10.4	11.2	10.2	9.3	9.1	6.9	4.0	7.8	10.6	7.9	6.9
Percent Change (without inflation)	9.7	7.6	5.5	4.7	4.1	3.3	2.5	1.1	-1.9	3.4	5.1	2.0	0.9
Consumption	10.0	3.0	5.0	4.3	4.0	3.6	2.4	1.6	1.4	4.3	4.3	2.2	0.9
Durables	32.6	6.2	17.9	8.3	7.1	7.3	1.2	-1.7	-0.9	12.0	10.2	1.6	-0.9
Nondurables	6.4	3.6	2.0	2.9	3.0	2.5	2.2	1.9	0.5	3.1	3.0	1.9	0.8
Services	6.4	1.5	3.5	4.0	3.7	3.2	2.9	2.6	2.9	2.8	3.5	2.7	1.5
Residential Investment	78.6	30.3	-4.8	4.8	1.5	13.7	7.9	-2.5	-15.3	38.8	9.7	-1.0	-3.0
Nonresidential Investment	8.0	16.4	10.4	8.0	7.2	6.6	6.2	5.2	-4.7	0.2	9.0	5.4	1.9
Structures	-14.9	9.0	6.8	6.3	6.1	6.1	5.5	5.0	1.8	-7.1	5.1	4.5	-0.2
Equipment	19.8	19.4	12.1	8.7	7.6	6.9	6.5	5.3	-7.5	3.7	10.6	5.8	2.7
Exports	- .2	13.6	4.9	2.5	2.4	1.3	1.8	2.7	-7.8	-5.6	3.7	2.8	3.0
Imports	26.6	21.9	8.5	8.2	8.4	7.6	5.8	3.3	1.4	6.4	10.6	4.6	2.3
Government Purchases	-1.1	5.2	-2.2	8.1	4.6	3.3	2.6	-2.4	1.8	0.7	3.6	1.5	1.3
Consumption (% of GNP)	66.3	65.5	65.5	65.4	65.4	65.4	65.4	65.5	65.3	65.9	65.4	65.6	65.5
Residential Investment (% of GNP)	3.4	3.6	3.5	3.5	3.5	3.6	3.6	3.6	2.5	3.4	3.6	3.5	3.4
Nonresidential Investment (% of GNP)	10.7	10.9	11.0	11.1	11.2	11.3	11.4	11.5	11.2	10.8	11.2	11.6	11.7
Inventory Change ($ billions)	-14.5	8.7	26.2	24.8	27.5	24.1	22.9	23.2	-24.6	-4.7	24.8	17.8	14.3
Mfg. Capacity Utilization Rate (%)	74	77	79	81	81	81	81	81	71	75	81	81	79
Auto Sales (millions of units)	9.2	9.3	9.9	10.1	10.3	10.5	10.5	10.3	8.0	9.2	10.4	10.3	10.1
Manufacturing Industrial Production (% change)	21.0	22.2	14.0	8.0	3.7	2.4	1.0	0.1	-8.5	8.0	5.4	1.2	-0.1
Common Market	0.9	2.5	3.2	3.0	-4.4	0.4	1.1	3.9	-1.7	0.7	1.0	1.5	1.2
Japan	5.8	11.8	5.8	11.0	-1.0	2.4	3.6	7.5	0.4	2.9	5.9	4.6	1.6
Employment (millions)	99.9	101.6	102.3	103.2	104.1	104.8	105.4	105.9	99.5	100.7	104.4	106.4	107.5
Unemployment Rate (%)	10.1	9.4	8.5	8.3	8.2	8.1	8.0	8.1	9.7	9.6	8.2	8.3	8.9
Disposable Income per Household (average)	28,526	29,227	29,916	30,721	31,319	31,923	32,571	33,232	27 206	28,926	31,634	34,063	36,082
Percent Change -- Year Ago (w/o inflation)	1.2	3.1	4.1	4.9	4.8	3.7	2.9	2.1	-0.4	2.3	4.1	1.8	0.0
Total Taxes per Household (average)	14,025	14,078	14,407	14,678	14,986	15,306	15,596	15,866	13,205	13,998	15,142	16,219	17,555
Percent Change -- Year Ago	5.8	6.6	8.8	8.9	6.9	8.7	8.3	8.1	0.1	6.0	8.2	7.1	8.2
Percent of Disposable Income	49.2	48.2	48.2	47.8	47.9	47.9	47.9	47.7	48.5	48.4	47.9	47.6	48.7
Household Debt as Percent of Disposable Income	79.1	79.0	79.5	79.4	79.8	80.2	80.6	81.0	78.1	79.0	80.0	81.7	83.8
Consumer Price Inflation (CPI)	4.2	4.8	5.0	6.5	6.8	6.8	6.9	6.8	6.2	3.2	6.0	6.6	7.0
Gross National Product Inflation (GNP Deflator)	3.3	3.3	4.6	6.2	5.9	5.8	6.4	5.8	6.0	4.2	5.3	5.8	6.0
Personal Consumption Inflation	4.6	3.6	4.0	5.6	5.7	5.9	6.1	6.0	5.8	3.9	5.1	5.8	5.9
Residential Construction Inflation	-2.2	8.4	5.7	6.4	7.9	8.1	8.5	7.8	2.8	2.7	6.6	7.6	6.8
Nonresidential Construction Inflation	-0.5	-0.6	2.7	5.9	6.6	7.5	7.6	7.0	4.7	-0.7	4.5	7.0	6.9
Producers Price Inflation (WPI)	0.9	4.3	5.6	5.2	5.8	6.5	6.9	8.0	2.0	1.4	5.3	7.0	7.6
Compensation per Manhour (% change)	4.3	4.5	6.3	10.0	8.7	8.9	9.1	7.0	7.9	5.8	7.8	7.5	6.7
Productivity (% change)	6.4	5.1	2.4	2.6	2.4	1.9	1.6	1.3	0.0	3.4	2.9	1.4	0.8
Unit Labor Cost (% change)	-2.3	-0.3	3.8	7.3	6.2	6.9	7.3	5.7	7.9	2.3	4.8	6.0	5.9
Unit Capital Cost (% change)	7.5	6.6	5.9	5.4	5.1	4.9	4.7	4.6	9.8	7.1	5.0	4.5	4.6
Before Tax Corporate Profits ($ billions)<1>	213	236	244	260	262	264	267	262	190	219	263	268	261
Corporate Tax Liability	76	85	87	94	94	94	95	92	59	77	94	93	86
'Windfall Profits' Tax Receipts	10	9	11	11	12	11	11	12	16	11	11	12	13
After Tax Profits	127	142	145	155	157	158	160	158	115	131	157	163	162
Inventory Valuation Adjustment	-11	-19	-20	-21	-24	-27	-30	-35	-8	-13	-26	-34	-38
Capital Consumption Adjustment	26	38	42	46	48	49	49	53	-1	30	48	53	54
Profits from Current Production (with IVA, CCA)	142	161	167	180	181	180	179	176	106	148	180	182	179
Adjusted for Inflation (82:1 base)	135	151	155	165	163	160	157	152	104	139	161	154	143
Percent Change - Year Ago	29.6	43.8	48.5	43.2	21.1	5.7	1.0	-7.7	-8.9	33.9	15.9	-4.4	-7.3
Per Unit of Output (% of GNP)	4.3	4.8	4.8	5.1	5.0	4.8	4.7	4.6	3.4	4.4	4.9	4.6	4.2
Effective Corporate Tax Rate (%)<1>	35	35	35	35	35	35	35	35	37	35	35	34	33
Federal Tax Receipts (Unified basis)	666	629	599	601	774	681	641	651	609	613	674	734	830
Federal Expenditures (Unified basis)	783	777	824	862	872	830	906	943	740	797	867	953	1,068
Surplus or Deficit (Unified basis)	-117	-148	-226	-261	-97	-149	-265	-293	-131	-184	-193	-219	-237
% of GNP	3.6	4.4	6.6	7.4	2.7	4.0	7.0	7.6	4.2	5.6	5.3	5.5	5.6
% of Personal Savings	127.6	127.9	177.4	183.5	69.1	106.6	179.7	181.6	106.1	158.3	134.7	128.9	127.1
% of Total Private Savings	21.8	25.3	37.4	41.1	15.2	23.1	40.3	43.2	25.0	32.4	29.9	31.1	31.5

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

Table 3

REAL ESTATE AND FINANCIAL MARKETS — JANUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual	Forecast			
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,857	2 747	2,630	2,872	2,956	3 052	2,951	2,841	1,987	2,704	2,958	2,734	2,568
Percent Change - Year Ago	46.3	45.1	23.3	11.2	3.5	11.1	12.2	-1.1	-17.8	36.1	9.4	-7.6	-6.0
Dollar Volume (billions)	235.9	231.0	215.7	242.2	253.0	267.7	252.7	249.2	159.7	222.8	253.9	244.4	239.0
Existing Home Prices - Median ($1000's)	69.8	71.2	70.0	72.5	73.9	76.1	74.5	76.5	67.7	69.9	74.2	78.2	81.7
Percent Change - Year Ago	2.5	4.0	4.2	6.0	5.9	6.8	6.1	5.5	2.3	3.3	6.2	5.3	4.5
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	619	662	638	663	654	659	658	681	754	638	658	710	760
Percent of Household Income	22	23	22	22	21	21	21	21	28	23	21	21	22
NAR Affordability Index	82.0	81.8	86 5	86.7	86.1	86.0	90.3	88.7	68.4	82.5	87.3	88.1	87.2
New Single-Family Home Sales (thousands)	653	596	598	633	656	679	659	631	417	613	657	591	513
Percent Change - Year Ago	78.6	45.8	15.4	4.6	0.5	14.0	10.2	-0.2	-4.4	46.8	7.2	-10.0	-13.2
New Home Prices - Median ($1000's)	75.0	77.9	80.1	82.1	84.2	86.3	88.2	90.1	69.3	76.6	85.2	92.7	100.0
Percent Change - Year Ago	7.8	12.0	11.8	12.1	12.3	10.7	10.2	9.7	0.7	10.5	11.3	8.8	7.9
New Home Prices--Mean ($1000's, Quality Adjusted)	88.7	90.6	90.5	94.0	94.1	96.4	96.6	100.4	87.8	89.7	95.3	102.2	109.4
Percent Change - Year Ago	-0.1	3.4	5.4	5.6	6.1	6.4	6.7	6.8	2.8	2.2	6.2	7.2	7.0
New Mortgage Commitments ($ billions)	154.0	157.1	153.3	164.4	174.8	180.1	180.6	179.8	64.8	152.0	175.0	180.6	172.9
Percent Change - Year Ago	219 9	175.2	62.3	14.5	13.5	14.6	17.8	9.4	8.1	134.5	15.1	3.2	-4.3
Mortgage Debt Outstanding ($ billions)	1,724	1,776	1,802	1,834	1,875	1,922	1,969	2,019	1,628	1,746	1,900	2,100	1,995
Homeowners' Equity ($ billions)	2,536	2,633	2,728	2,825	2,925	3,016	3,105	3,191	2,396	2,594	2,968	3,308	3,611
Housing Inventory (millions)	91.6	92.0	92.4	92.8	93.1	93.5	93.9	94.3	90.6	91.8	93.3	94.9	96.3
Private Housing Starts (thousands)	1,683	1,793	1,621	1,645	1,710	1,810	1,741	1,660	1,059	1,698	1,727	1,629	1,566
Single-Family	1,104	1,069	996	1,027	1,085	1,167	1,145	1,095	663	1,062	1,106	1,071	1,043
Multi-Family	579	725	625	618	626	643	596	565	395	636	621	558	523
Mobile Home Shipments (thousands)	299	302	300	303	310	321	314	307	239	295	312	301	289
Rental Vacancy Rate (%)	5 5	5.8	5.7	5.6	5.5	5.5	5.5	5.5	5.3	5.7	5.5	5.5	5.5
Unsold New Homes (% of sales)	40.0	46.1	44.3	44.4	44.6	45.4	46.7	48.8	65.2	42.8	45.3	51.5	55.7
Office Vacancy Rate (%)<1>	11.7	11.7	11.9	11.6	11.2	10.6	10.0	10.0	8.0	11,5	10.8	10.0	9.5
Industrial Vacancy Rate (%)<1>	4.9	5.1	5.2	5.1	4.9	4.7	4.6	4.5	4.4	5.0	4.8	4.5	4.3
New Commercial Building Construction (% Ch Value)	-24.3	28.2	8.5	14.5	16.8	20.2	17.9	14.8	9.0	-3.0	13.4	15.0	8.5
New Industrial Building Construction (% Ch Value)	-34.9	2.1	10.3	8.5	8.9	10.2	15.5	8.3	2.5	-21.8	5.3	10.6	8.0
FINANCIAL MARKETS													
Personal Savings Rate (%)	4.0	4.9	5.2	5.7	5.5	5.4	5.5	5.9	5.8	4.9	5.5	6.1	6.2
Money Supply (M1: % change)(FED Target 5-9%)	12.8	9.2	1.9	6.2	6.6	6.7	6.0	4.8	6.5	10.8	6.3	5.5	4.8
Money Supply (M2: % change)(FED Target 7-10%)	10.5	8.1	8.4	10.8	9.5	9.4	8.1	7.5	9.4	12.5	9.4	8.0	7.3
Total Time and Savings Deposits (% change)	-4.9	4.2	11.9	11.6	11.2	12.7	11.6	8.8	7.1	-1.4	9.7	10.4	8.9
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.0	13.7	13.4	13.5	13.0	12.7	13.0	13.1	16.6	13.4	13.0	13.4	13.7
Real Mortgage Rate	9.8	10.4	8.7	7.3	7.1	6.9	6.5	7.3	12.2	9.3	7.0	7.6	7.6
Assumption Rate	10.0	10.1	10.2	10.2	10.2	10.1	10.1	10.2	10.5	10.1	10.2	10.2	10.4
Seller Take Back Mortgage Rate	10.6	10.6	10.9	10.9	10.9	10.8	10.8	10.9	11.7	10.8	10.9	10.9	11.1
Blended Rate	12.3	12.7	12.5	12.6	12.3	12.1	12.3	12.4	14.4	12.5	12.3	12.6	12.8
Corporate Bond Rate (AAA)	11.6	12.3	12.5	12.4	12.2	12.0	11.8	12.0	13.8	12.1	12.1	12.2	12.3
Government Bond Rate	10.1	11.3	11.1	10.7	10.3	10.2	10.6	10.9	13.0	10.6	10.5	11.0	11.8
Real Long-term Government Bond Rate	6.8	8.0	6.5	4.5	4.4	4.4	4.2	5.1	8.6	6.4	4.4	5.3	5.7
Federal Funds Rate	8.8	9.5	9.4	9.1	8.9	8.9	9.4	9.6	12.3	9.1	9.1	10.0	11.3
3 Month Treasury Bills	8.4	9.1	8.7	8.5	8.2	8.2	8.6	9.0	10.6	8.6	8.4	9.2	10.1
1 Year Treasury Bills	9.2	10.3	9.9	9.8	9.5	9.4	9.8	10.0	12.3	9.5	9.6	10.2	11.1
Commercial Paper Rate	8.6	9.3	8.8	8.8	8.5	8.6	9.1	9.5	11.9	8.8	8.7	9.8	10 8
Rate on Money Market Fund Shares	8.7	9.5	9.0	8.9	8.6	8.8	9.2	9.6	12.1	8.9	8.9	10.0	11.0
Prime Rate	10.5	10.8	11.0	10.7	10.4	10.2	10.6	10.8	14.9	10.8	10.5	11.2	12.0

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

Overall, 1984 should be a year of strong growth for the U.S. economy with real or inflation-adjusted Gross National Product (GNP) increasing 5 percent above the 1983 level. Interest rates are likely to drop modestly through the third quarter due to relatively weak private credit demand, substantial inflows of loanable funds from abroad, and a slightly more accommodative monetary policy. This easing of interest rates is expected to provide modest gains in residential investment and automobile sales. Housing starts should increase 4 percent to 1.8 million units and automobile sales should rise nearly 10 percent to 10 million units. The slight drop in interest rates along with rising capacity utilization should produce gains in business investment in new equipment although gains in investment in new structures should be modest. Nearly 4 million new jobs should be created with the unemployment rate falling to the mid-7 percent range by the end of the year. The strong growth in the economy is expected to be associated with accelerating inflation rates: the Consumer Price Index (CPI) should rise 5 1/2 percent in 1984 compared to 3.2 percent in 1983.

While it appears that the year as a whole will be normal and healthy, the trend will be toward slower growth; from 5 percent during the first quarter of the year to 3 percent during the final quarter with even slower growth during 1985 and 1986. There is a risk of recession or very slow growth by late 1985 or early 1986, which would make the current recession typical of peacetime recoveries in terms of duration. However, in terms of growth of real GNP the strength of the current recovery is expected to be just 75 percent of the typical peacetime recovery.

The reason for the slower pace of the current recovery is the high demand for loanable funds by the federal government, which is causing interest rates to remain high and thereby dampening investment by people and businesses. Real or inflation-adjusted interest rates are at double their average level during the last 35 years. Moreover, unless credible deficit-reducing legislation is enacted within the next few months, interest rates could rise by the end of this year and through 1985. Private credit demand, which will increase as the economy grows, will come into increasing conflict with the large and expanding credit needs of the federal government. Higher inflation rates during 1984 and 1985 are likely to cause the Federal Reserve to adopt a less accommodative stance by the end of this year.

The Association's testimony concerning the federal government's economic policies is attached.

Real Estate Markets

Sales of existing single-family homes rose 8.5 percent in December to a seasonally-adjusted annual rate of 2,820,000. For 1983 as a whole, 2,717,000 existing single-family homes changed hands, a 36.5 percent increase over the 1982 level. Housing starts in December were virtually unchanged from the November level at a seasonally adjusted annual rate of 1,415,000 units. For all of 1983 a total of 1,715,000 housing units were started, an increase of 61.9 percent over 1982.

With modest declines in mortgage interest rates expected during 1984, resales should increase to 2.94 million units while starts should increase to 1.78 million units. However, increases in mortgage rates during 1985 should cause resales and starts to retreat to 2.63 million units and 1.59 million units, respectively.

Commercial construction should experience a moderate rebound in 1984 which should continue through 1985. Industrial construction, which suffered a severe downturn in 1983, should record a modest gain in 1984 with stronger growth in 1985.

Table 1

U.S. ECONOMIC OUTLOOK

FEBRUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:2	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,362	3,432	3,527	3,613	3,698	3,784	3,854	3,925	3,073	3,309	3,655	3,960	4,223
Percent Change	11.5	8.6	11.5	10.1	9.7	9.6	7.6	7.6	4.0	7.7	10.5	8.3	6.7
Percent Change (without inflation)	7.6	4.5	5.0	4.3	3.5	2.9	2.2	2.0	-1.9	3.3	5.1	2.5	1.2
Consumption	2.2	6.5	3.3	3.8	3.0	2.0	1.7	1.9	1.4	4.2	4.1	2.2	2.1
Durables	3.7	15.4	4.6	8.3	5.7	2.0	0.4	0.9	-0.9	11.5	8.6	2.2	2.1
Nondurables	3.6	5.6	2.6	2.3	1.5	1.0	1.5	1.6	0.5	3.3	3.2	1.5	1.9
Services	0.6	4.5	3.5	3.4	3.2	2.8	2.4	2.5	2.9	2.8	3.4	2.7	2.2
Residential Investment	36.0	-4.8	11.4	4.7	7.5	0.2	-7.5	-13.2	-15.3	39.6	11.2	-4.7	0.0
Nonresidential Investment	18.6	22.4	5.1	7.0	6.9	6.1	5.7	5.2	-4.7	1.1	10.6	5.7	3.6
Structures	11.1	10.1	4.9	6.7	6.0	5.2	4.9	3.8	1.8	-6.7	5.7	4.6	2.3
Equipment	22.0	27.6	5.2	7.1	7.2	6.5	6.1	5.7	-7.5	4.9	12.6	6.1	4.2
Exports	13.9	2.3	4.7	4.8	4.5	4.8	5.2	5.4	-7.8	-5.7	4.8	5.0	4.2
Imports	18.2	34.0	3.6	8.5	6.6	5.9	6.0	5.9	1.4	7.5	13.3	5.8	3.4
Government Purchases	4.3	-2.7	4.4	10.0	3.4	3.1	1.5	2.7	1.8	0.5	3.5	2.8	1.5
Consumption (% of GNP)	65.4	65.7	65.5	65.4	65.3	65.1	65.1	65.1	65.3	65.9	65.3	65.1	65.7
Residential Investment (% of GNP)	3.7	3.6	3.6	3.6	3.7	3.6	3.5	3.4	2.5	3.4	3.6	3.4	3.3
Nonresidential Investment (% of GNP)	11.0	11.4	11.4	11.5	11.6	11.6	11.7	11.8	11.2	10.9	11.5	11.9	12.2
Inventory Change ($ billions)	8.5	17.7	26.2	20.5	21.7	25.9	31.1	33.5	-24.6	-6.9	23.6	28.6	-10.2
Mfg. Capacity Utilization Rate (%)	77	79	80	81	81	81	81	81	71	75	81	81	80
Auto Sales (millions of units)	9.3	9.9	9.8	10.1	10.3	10.3	10.2	10.2	8.0	9.2	10.1	10.2	10.0
Domestic (% of total)	75.0	72.7	79.9	78.5	75.6	75.6	76.7	76.5	72.3	73.8	77.4	76.0	74.1
Imported (% of total)	25.0	27.2	20.1	21.5	24.4	24.4	23.3	23.5	27.9	26.1	22.6	24.0	25.9
Manufacturing Industrial Production (% change)	22.7	11.7	6.4	5.1	3.5	3.2	2.6	2.2	-8.5	7.9	9.2	2.7	1.4
Common Market	2.6	6.4	-0.5	1.8	1.6	2.2	2.8	3.0	-1.7	1.1	2.2	2.2	1.4
Japan	15.4	5.9	10.9	12.4	7.4	3.1	5.3	5.1	0.4	3.3	9.5	4.9	2.6
Employment(millions)(civilian:household basis)	101.5	102.5	103.5	104.3	105.1	105.7	106.3	106.7	99.5	100.8	104.7	106.9	108.1
Unemployment Rate (%) (civilian)	9.4	8.5	8.1	8.0	7.8	7.7	7.8	7.8	9.7	9.6	7.9	7.9	8.5
Personal Income per Household (average)	34,157	34,972	35,738	36,389	37,105	37,863	38,544	39,225	32,233	33,950	36,774	39,601	42,053
Percent Change -- Year Ago (w/o inflation)	1.7	3.1	3.8	3.4	3.4	2.2	1.8	1.8	-0.8	1.3	3.2	1.8	1.0
Personal Taxes per Household (average)	6,439	6,578	6,613	6,756	6,920	7,082	7,239	7,381	6,426	6,511	6,843	7,462	8,002
Percent Change -- Year Ago (w/o inflation)	-3.3	-1.8	-1.5	-2.1	1.9	1.5	3.4	3.2	-2.3	-2.8	-0.1	3.1	1.8
Percent of Personal Income	18.9	18.8	18.5	18.6	18.6	18.7	18.8	18.8	19.9	19.2	18.5	18.8	19.0
Disposable Income per Household (average)	29,210	29,905	30,696	31,241	31,834	32,461	33,047	33,614	27,206	28,919	31,558	33,921	35,947
Percent Change--Year Ago (w/o inflation)	2.9	4.1	5.0	4.7	3.7	2.5	1.6	1.6	-0.4	2.2	4.0	1.6	0.7
Household Interest Payments (% of total)	9.9	10.2	10.4	10.5	9.9	9.9	9.9	10.0	9.6	9.8	10.2	10.2	10.0
Net Worth per Household (average)	75,022	75,945	77,439	79,106	80,656	81,928	82,941	84,018	66,456	74,272	79,782	84,736	90,918
Percent Change -- Year Ago (w/o inflation)	7.9	4.5	3.3	1.7	2.0	1.7	1.2	0.4	-1.8	7.3	2.2	0.5	1.8
Consumer Price Inflation (CPI)	4.8	4.8	5.7	6.1	6.4	6.5	5.8	5.7	6.2	3.2	5.5	6.0	5.5
Gross National Product Inflation (GNP Deflator)	3.6	3.9	6.2	5.6	6.0	6.5	5.3	5.5	6.0	4.2	5.1	5.7	5.4
Personal Consumption Inflation	4.2	3.0	5.2	5.8	6.2	6.3	5.5	5.6	5.8	3.9	4.9	5.8	5.2
Residential Construction Inflation	8.5	3.7	5.4	6.9	7.2	7.4	6.0	6.1	2.8	2.6	5.6	6.5	5.8
Nonresidential Construction Inflation	0.0	1.2	5.2	6.9	7.7	7.9	6.7	6.8	4.7	-0.7	4.2	7.1	6.2
Producers Price Inflation (WPI)	4.2	3.9	4.1	5.4	6.2	6.1	6.2	6.4	2.0	1.3	4.5	6.2	6.7
Compensation per Manhour (% change)	4.2	5.2	9.0	7.3	7.5	7.6	7.9	7.3	7.9	5.7	6.8	7.5	6.8
Productivity (% change)	3.1	2.8	2.9	2.9	2.0	1.7	1.5	1.1	0.0	3.2	2.9	1.6	0.9
Unit Labor Cost (% change)	1.3	2.4	5.9	4.3	5.4	5.8	6.3	6.1	7.9	2.4	3.8	5.8	5.8
Unit Capital Cost (% change)	6.4	5.7	5.1	4.8	4.6	4.4	4.3	4.2	9.5	6.9	4.7	4.3	4.4
Before Tax Corporate Profits ($ billions)<1>	238	233	240	255	265	273	272	274	190	216	258	274	279
Corporate Tax Liability	85	83	86	92	96	99	97	97	59	76	93	98	94
'Windfall Profits' Tax Receipts	9	9	9	10	10	10	11	11	16	10	10	11	13
After Tax Profits	144	141	145	153	159	164	164	166	115	130	155	165	165
Inventory Valuation Adjustment	-18	-9	-15	-21	-26	-28	-30	-31	-8	-10	-22	-31	-34
Capital Consumption Adjustment	38	46	51	51	51	50	54	54	-1	31	51	55	57
Profits from Current Production (with IVA, CCA)	163	179	181	183	183	186	189	190	106	151	183	190	188
Adjusted for Inflation (83:1 base)	161	174	173	173	171	171	171	170	109	149	172	168	158
Percent Change - Year Ago	46.0	59.4	44.1	22.7	6.5	-1.9	-1.3	-1.9	-8.9	37.2	15.5	-2.2	-6.1
Per Unit of Output (% of GNP)	4.9	5.2	5.1	5.1	5.0	4.9	4.9	4.8	3.4	4.6	5.0	4.8	4.4
Effective Corporate Tax Rate (%)<1>	35	32	33	34	35	35	34	34	37	34	34	34	34
Federal Tax Receipts (Unified basis)	629	599	600	778	687	647	658	850	609	613	678	744	808
Percent of GNP	18.7	17.5	17.0	21.5	18.6	17.1	17.1	21.6	19.8	18.5	18.6	18.3	19.1
Federal Expenditures (Unified basis)	777	829	869	877	834	910	944	956	740	798	872	951	1,048
Percent of GNP	23.1	24.2	24.6	24.3	22.6	24.0	24.5	24.4	24.1	24.1	23.9	24.0	24.8
Surplus or Deficit (Unified basis)	-148	-230	-268	-99	-147	-262	-286	-106	-131	-185	-194	-207	-240
% of GNP	4.4	6.7	7.6	2.7	4.0	6.9	7.4	2.7	4.2	5.6	5.3	5.2	5.7
% of Personal Savings	127.6	186.0	184.6	70.6	104.3	176.4	180.4	64.6	106.1	160.4	134.0	123.7	140.2
% of Net Domestic Savings	56.6	81.0	86.8	32.5	48.3	83.7	89.1	32.9	68.0	77.0	62.8	63.8	75.6

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

FEBRUARY 1984

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:3	83:4	84:1	84:2	84:3	84:4	85:1	85:2	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,740	2,677	2,807	2,931	3 062	2,961	2,764	2,687	1,990	2 717	2,940	2,627	2,710
Percent Change - Year Ago	44.7	25.5	8.7	2.6	11.8	10.6	-1.5	-8.3	-17.6	36.5	8.2	-10.7	3.2
Dollar Volume (billions)	229.9	222.7	238.6	251.6	268.5	253.4	243.3	241.0	160.2	225.8	253.0	235.4	255.1
Existing Home Prices - Median ($1000's)	71.1	70.2	72.4	73.6	75.6	74.1	76.5	78.1	67.8	70.3	73.9	78.2	82.5
Percent Change - Year Ago	3.8	4.0	5.8	5.5	6.4	5.6	5.7	6.1	2.1	3.7	5.1	5.7	5.5
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	651	640	657	648	658	657	708	730	754	635	655	732	750
Percent of Household Income	23	22	22	21	21	21	22	22	28	22	21	22	21
NAR Affordability Index	82.0	85.2	84.3	86.2	86.8	89.4	87.0	85.7	68.4	82.2	86.7	86.1	87.9
New Single-Family Home Sales (thousands)	578	626	620	654	682	654	614	585	417	616	653	570	585
Percent Change - Year Ago	41.5	20.8	2.5	0.2	18.0	4.5	-1.0	-10.5	-4.4	47.5	6.0	-12.7	2.6
New Home Prices - Median ($1000's)	77.6	76.1	77.3	78.8	80.4	82.1	83.5	84.9	69.3	75.5	79.6	85.7	91.6
Percent Change - Year Ago	11.5	6.2	5.5	5.1	3.6	7.8	8.0	7.8	0.7	8.9	5.5	7.6	6.9
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	89.5	92.5	94.1	95.9	95.5	98.8	100.2	87.8	89.5	94.5	100.5	106.2
Percent Change - Year Ago	3.5	3.5	3.9	6.1	5.7	6.7	6.8	6.5	2.8	1.9	5.6	6.3	5.7
New Mortgage Commitments ($ billions)	192.0	177.3	179.4	177.4	180.5	182.5	177.9	173.7	64.8	166.7	179.9	178.6	207.5
Percent Change - Year Ago	236.2	87.7	24.9	15.2	-6.0	2.9	-0.8	-2.0	8.1	157.2	7.9	-0.8	16.2
Mortgage Debt Outstanding ($ billions)	1,774	1,826	1,880	1,938	2,000	2,061	2,125	2,189	1,629	1,752	1,970	2,223	2,170
Homeowners' Equity ($ billions)	2,622	2,667	2,710	2,750	2,777	2,841	2,908	2,973	2,396	2,577	2,770	3,003	3,251
Housing Inventory (millions)	92.0	92.4	92.8	93.2	93.6	94.0	94.4	94.8	90.6	91.8	93.4	95.0	96.4
Private Housing Starts (thousands)	1,791	1,692	1,773	1,804	1,817	1,730	1,653	1,579	1,059	1,715	1,781	1,586	1,644
Single-Family	1,066	1,024	1,094	1,116	1,131	1,078	1,013	954	663	1,068	1,105	959	997
Percent of Total	59.5	60.5	61.7	61.9	62.3	62.3	61.3	60.4	62.8	62.3	62.0	60.5	60.6
Multi-Family	725	668	680	688	686	652	639	625	395	647	676	627	647
Percent of Total	40.5	39.5	38.3	38.1	37.7	37.7	38.7	39.6	37.2	37.7	38.0	39.5	39.4
Mobile Home Shipments (thousands)	302	300	307	313	318	313	311	304	239	296	313	304	311
Rental Vacancy Rate (%)	5.8	5.7	5.6	5.6	5.5	5.5	5.5	5.5	5.3	5.7	5.5	5.5	5.4
Unsold New Homes (% of sales)	47.4	47.1	45.9	45.8	45.6	46.6	48.9	51.3	65.2	43.8	46.0	51.8	56.5
Office Vacancy Rate (%)<1>	11.7	12.4	11.6	11.2	10.6	10.0	9.5	9.0	8.0	11.7	10.8	9.0	8.6
Industrial Vacancy Rate (%)<1>	5.1	4.9	5.1	4.9	4.7	4.6	4.5	4.4	4.4	4.9	4.8	4.4	4.1
New Commercial Building Construction (% Ch Value)	26.4	5.2	11.1	19.1	19.9	17.8	14.5	13.0	9.0	-3.4	12.1	14.9	10.6
New Industrial Building Construction (% Ch Value)	2.0	-50.0	36.3	26.6	29.5	28.0	19.4	17.3	2.5	-25.2	1.3	20.1	13.8
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	9.2	2.1	8.3	8.7	6.0	4.9	4.2	4.4	6.5	10.9	7.0	5.3	5.5
M2 (% change)(FED Target 6-9%)	8.1	7.2	10.4	10.1	8.8	7.8	6.7	6.6	9.4	12.4	9.1	7.5	7.7
Monetary Base (% change)	5.9	8.6	10.4	7.7	6.6	7.0	5.8	6.4	6.7	9.2	8.4	6.5	6.1
Flow of Funds													
Supply													
Personal Savings	116	124	145	141	141	149	158	165	125	113	144	168	171
Savings Rate	4.9	5.1	5.8	5.5	5.4	5.6	5.8	6.0	5.8	4.9	5.6	6.0	5.7
Net Business Savings	90	103	103	102	101	101	102	101	37	78	102	100	90
State + Local Govt. Savings	56	57	61	62	63	63	60	58	31	51	62	58	55
Foreign Funds(current account deficit)	48	62	55	59	62	65	69	72	15	41	60	72	80
Demand													
Consumer Installment Debt(net change)	42	42	39	38	37	35	33	32	13	37	37	33	32
Commercial+Industrial Loans(net change)	3	13	-2	24	47	69	80	59	23	-3	34	43	-20
Home Mortgage Debt(net change)	123	116	94	91	92	82	83	79	-7	92	90	82	94
Federal Deficit	148	230	268	99	147	262	286	106	131	185	194	207	240
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.5	13.4	13.4	12.9	12.8	13.0	13.6	13.8	16.6	13.4	13.0	13.8	13.4
30 Year,Fixed-Rate	14.2	14.1	14.1	13.6	13.5	13.7	14.3	14.5	17.3	14.1	13.7	14.5	14.1
1 Year ARM	12.6	12.3	12.2	12.1	12.0	12.5	13.0	13.2	14.6	11.9	12.2	13.1	12.7
Real Mortgage Rate (weighted average)	9.9	9.5	7.1	7.3	6.8	6.5	8.4	8.2	12.2	9.3	6.9	8.2	8.2
Corporate Bond Rate (AAA)	12.3	12.4	12.4	12.2	12.1	12.1	12.4	12.6	13.8	12.0	12.2	12.6	12.0
Government Bond Rate	11.3	11.2	11.0	10.8	10.7	11.1	11.4	11.6	13.0	10.6	10.9	11.5	10.8
Real Long-term Government Bond Rate	7.7	7.3	4.8	5.2	4.7	4.6	6.2	6.1	8.6	6.6	4.8	5.9	5.6
Federal Funds Rate	9.5	9.4	9.5	9.3	9.1	9.7	10.5	10.9	12.3	9.1	9.4	10.7	10.4
3 Month Treasury Bill Rate	9.1	8.8	8.9	8.8	8.6	9.0	9.5	9.8	10.6	8.6	8.8	9.7	9.5
Real 3 Month T-Bill Rate	5.6	4.3	2.6	3.2	2.6	2.5	4.3	4.3	6.2	4.5	2.7	4.2	4.4
1 Year Treasury Bill Rate	10.3	10.0	9.9	9.8	9.7	10.2	10.7	10.9	12.3	9.6	9.9	10.8	10.4
Commercial Paper Rate	9.3	9.2	9.1	9.2	8.9	9.5	10.1	10.5	11.9	8.9	9.2	10.4	10.1
Rate on Money Market Fund Shares	9.5	9.3	9.2	9.3	9.1	9.7	10.4	10.7	12.1	9.0	9.3	10.6	10.2
Prime Rate	10.8	11.0	11.0	11.0	10.6	11.0	11.6	12.1	14.9	10.8	10.9	11.9	11.5

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

The economy is showing surprising strength during the first quarter of this election year. Strong consumer spending and healthy growth in residential investment and business spending on new equipment is combining with the fiscal stimulus of a $200 billion federal deficit to push the growth of real or inflation-adjusted Gross National Product (GNP) to the 6 percent range, up from 4.8 percent during the fourth quarter of 1983. However, the trend should be for slower growth during the remaining three quarters of this year and through 1985 with the risk of a recession in late 1985 or early 1986.

This rapid growth of the economy is resulting in impressive gains in employment and a rapid decline in the unemployment rate. During February the unemployment rate fell another 0.2 percentage points to 7.8 percent. In fact, it is possible that the unemployment rate could fall to just above 7 percent by the end of the year.

Unfortunately, it also seems clear that this rapid growth cannot continue without some acceleration of inflation. Led by increases in food prices, the Consumer Price Index (CPI) rose at an annual rate of 7.5 percent during January. For all of 1984 the CPI should rise about 5-1/2 percent or more, up from 3.2 percent during 1983.

The strong growth of the economy and the apparent acceleration of inflation has caused increased uncertainty in financial markets resulting in some upward movement in interest rates in the past few weeks. Investors are predicting some further tightening of credit conditions by the Federal Reserve Board (FED). With this expected FED policy change already discounted into interest rates, there is some room for modest declines in rates during the second and third quarters of this year. However, unless credible deficit-reduction legislation is enacted within the next few months, interest rates should continue to rise this year and through 1985. Private credit demand, which will increase as the economy grows, will come into increasing conflict with the large and expanding credit needs of the federal government.

Real Estate Markets

Due to high levels of consumer and builder confidence, residential real estate markets remain fairly strong despite relatively high mortgage interest rates. In January sales of existing single-family homes rose 4.9 percent to a seasonally-adjusted annual rate of 2,990,000 units. During the same month housing starts rose 14.9 percent to a seasonally-adjusted annual rate of 1,915,000 units. However, some of this gain is starts postponed from December due to the severe weather.

For all of 1984, resales should total 2.95 million units while starts should total 1.80 million units. Increases in mortgage rates this year and through 1985 should cause resales and starts to retreat to 2.7 million units and 1.6 million units, respectively.

The median price of existing single-family homes sold during January was $71,900, up $2,000 over the December median price and 5.6 percent higher than a year ago. The median price of new single-family homes sold in January was $75,300, down $1,200 over December and only 2.4 percent higher than a year ago. For all of 1984 existing home prices should rise a little over 5 percent while new home prices should rise about 6 percent.

Both commercial and industrial construction should experience a moderate rebound in 1984 which should continue through 1985.

Table 1

U.S. ECONOMIC OUTLOOK

MARCH 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84 4	85:1	85:2	85:3	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,437	3,535	3,625	3,709	3 793	3,862	3,933	4,006	3,073	3,311	3,666	3,971	4,270
Percent Change	9.2	11.9	10.6	9.6	9.3	7.5	7.6	7.6	4.0	7.7	10.7	8.3	7.5
Percent Change (without inflation)	4.8	5.6	4.8	3.8	3 3	1.4	2.1	2.1	-1.9	3.3	5.4	2.5	1.6
Consumption	5.7	4.5	2.9	2.6	2.4	2.7	2.4	2.2	1.4	4.2	4.1	2.5	1.8
Durables	18.3	14.9	3.6	2.7	1.9	2.6	1.1	1.8	-0.9	11.7	10.4	2.1	1.2
Nondurables	4.1	0.9	1.9	2.1	2.0	2.7	2.7	2.0	0.5	3.2	2.6	2.3	1.4
Services	3.0	4.0	3.5	3.0	2.8	2.7	2.6	2.6	2.9	2.7	3.2	2.8	2.2
Residential Investment	2.1	17.8	5.8	3.2	-3.6	-8.1	-11.2	-7.3	-15.3	40.2	13.6	-5.2	0.7
Nonresidential Investment	20.1	4.0	7.2	7.1	6.2	5.7	5.3	5.0	-4.7	1.5	11.4	5.8	4.1
Structures	11.0	1.5	7.1	6.3	5.4	5.1	5.0	4.2	1.8	-6.7	5.1	5.2	3.5
Equipment	37.1	4.9	7.2	7.4	6.6	5.9	5.5	5.3	-7.5	5.4	14.0	6.1	4.4
Exports	7.3	5.8	4.6	5.0	5.3	6.4	6.0	5.3	-7.8	-5.4	6.1	5.6	4.3
Imports	26.1	5.6	13.2	8.4	7.6	6.7	6.9	5.0	1.4	7.0	13.8	7.1	3.9
Government Purchases	-2.7	-2.7	14.2	3.4	3.0	3.8	2.9	2.0	1.8	0.5	2.4	3.7	1.6
Consumption (% of GNP)	65.5	65.4	65.1	64.9	64.7	64.9	65.0	65.0	65.3	65.9	65.0	65.0	65.1
Residential Investment (% of GNP)	3.6	3.7	3.7	3.7	3.7	3.6	3.5	3.4	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.5	11.5	11.6	11.6	11.7	11.8	11.9	12.0	11.2	11.0	11.6	12.0	12.3
Inventory Change ($ billions)	10.5	28.0	28.8	37.0	45.5	32.2	31.6	31.7	-24.6	-8.7	34.8	31.8	15.7
Mfg. Capacity Utilization Rate (%)	79	80	81	81	82	82	82	82	71	75	81	82	81
Auto Sales (millions of units)	9.9	10.2	10.3	10.3	10.3	10.3	10.3	10.3	8.0	9.2	10.3	10.3	10.1
Domestic (% of total)	72.7	78.8	78.9	75.5	75.6	76.9	76.6	76.2	72.3	73.8	77.2	76.2	74.3
Imported (% of total)	27.2	21.2	21.1	24.5	24.4	23.1	23.4	23.8	27.9	26.1	22.8	23.8	25.7
Manufacturing Industrial Production (% change)	10.1	9.5	5.2	3.5	3.8	2.3	2.0	2.8	-8.5	7.8	9.8	2.9	1.9
Common Market	6.7	-0.5	1.6	1.7	4.6	0.2	3.0	1.0	-1.7	0.8	2.0	2.1	1.5
Japan	8.6	11.0	12.4	7.5	3.3	5.5	5.2	4.2	0.4	3.5	10.0	5.0	2.8
Employment(millions)(civilian:household basis)	102.5	103.6	104.5	105.3	106.0	106.5	107.0	107.4	99.5	100.8	104.8	107.1	108.5
Unemployment Rate (%) (civilian)	8.5	7.9	7.7	7.5	7.4	7.4	7.5	7.6	9.7	9.6	7.6	7.5	8.1
Personal Income per Household (average)<1>	36,495	37,391	38,081	38,852	39,617	40,415	41,105	41,830	33,633	35 433	38,485	41 483	44,115
Percent Change -- Year Ago (w/o inflation)	3.2	3.9	3.6	3.6	2.4	2.0	2.1	2.0	-0.8	1.3	3.4	2.0	0.6
Personal Taxes per Household (average)	6 588	6,769	6,899	7,051	7 206	7,382	7,516	7,674	6,426	6,513	6 981	7,604	8,160
Percent Change -- Year Ago (w/o inflation)	-1.8	0.8	0.0	4.0	3.5	3.1	3.1	3.0	-2.3	-2.8	2.1	3.1	1.4
Percent of Personal Income	18.8	18.9	18.9	19.0	19.0	19.1	19.1	19.2	19.9	19.2	18.9	19.2	19.3
Disposable Income per Household (average)	29,910	30 622	31,181	31,801	32 411	33,033	33 589	34,156	27 206	28 920	31,504	33,878	35,955
Percent Change--Year Ago (w/o inflation)	4.2	4.8	4.5	3.6	2.3	1.9	2.0	1.8	-0.4	2.3	3.8	1.8	0.4
Household Interest Payments (% of total)	10.2	10.4	10.6	10.1	10.0	10.0	10.1	10.3	9.6	9.8	10.3	10.2	10.0
Net Worth per Household (average)	75,887	76,543	78 057	79,588	80,987	82 123	83,181	84,608	66,456	74 253	78,794	84 075	91 118
Percent Change -- Year Ago (w/o inflation)	4.4	2.1	0.4	0.8	1.0	1.5	0.8	0.6	-1.8	7.2	1.0	1.0	2.4
Consumer Price Inflation (CPI)	4.8	6.0	6.2	6.1	6.0	5.8	5.8	5.9	6.2	3.2	5.5	5.9	6.1
Gross National Product Inflation (GNP Deflator)	4.2	5.9	5.5	5.6	5.8	6.0	5.3	5.4	6.0	4.2	5.0	5.7	5.8
Personal Consumption Inflation	2.8	5.4	6.1	6.0	5.9	5.4	5.3	5.4	5.8	3.9	5.0	5.6	5.7
Residential Construction Inflation	-1.8	5.2	6.9	7.2	7.5	6.7	6.6	6.5	2.8	2.2	4.5	6.9	7.0
Nonresidential Construction Inflation	1.4	5.2	6.5	7.5	7.5	6.9	6.8	6.9	4.7	-0.7	4.1	7.1	7.1
Producers Price Inflation (WPI)	3.9	4.6	6.5	6.6	5.6	4.6	5.7	6.4	2.0	1.3	4.9	5.7	6.2
Compensation per Manhour (% change)	4.5	9.8	7.3	7.6	7.8	8.4	7.1	6.9	7.9	5.6	6.8	7.6	6.9
Productivity (% change)	1.2	3.1	2.1	2.4	1.7	1.5	1.2	1.2	0.0	3.1	2.5	1.6	1.1
Unit Labor Cost (% change)	3.6	6.4	5.1	5.1	5.9	6.8	5.9	5.6	7.9	2.4	4.3	5.9	5.7
Unit Capital Cost (% change)	5.7	5.2	4.9	4.7	4.6	4.6	4.5	4.5	9.5	6.9	4.9	4.5	4.6
Before Tax Corporate Profits ($ billions)<2>	233	239	252	260	266	262	262	263	190	216	254	263	271
Corporate Tax Liability	83	85	91	94	96	93	92	91	59	76	91	92	95
'Windfall Profits' Tax Receipts	9	9	9	9	9	9	9	9	16	10	9	9	9
After Tax Profits	141	146	153	158	162	161	162	163	115	130	154	162	168
Inventory Valuation Adjustment	-7	-15	-23	-28	-27	-24	-27	-31	-8	-9	-23	-29	-32
Capital Consumption Adjustment	47	54	56	59	61	68	70	73	-1	31	58	72	78
Profits from Current Production (with IVA, CCA)	181	184	186	188	195	204	205	206	106	152	189	205	213
Adjusted for Inflation (83:1 base)	176	177	176	176	180	185	184	182	109	149	177	182	179
Percent Change - Year Ago	60.8	47.0	25.0	9.4	2.4	4.5	4.1	3.4	-8.9	37.5	18.6	2.8	-1.5
Per Unit of Output (% of GNP)	5.3	5.2	5.1	5.1	5.2	5.3	5.2	5.1	3.4	4.6	5.1	5.2	5.0
Effective Corporate Tax Rate (%)<2>	32	32	33	34	33	32	31	31	37	34	33	31	31
Federal Tax Receipts (Unified basis)	598	614	789	694	654	666	855	757	609	613	688	749	820
Percent of GNP	17.4	17.4	21.8	18.7	17.2	17.2	21.8	18.9	19.8	18.5	18.8	18.9	19.2
Federal Expenditures (Unified basis)	851	860	870	830	899	942	955	912	740	803	865	949	1,042
Percent of GNP	24.8	24.3	24.0	22.4	23.7	24.4	24.3	22.8	24.1	24.3	23.6	23.9	24.4
Surplus or Deficit (Unified basis)	-253	-246	-81	-135	-245	-276	-99	-155	-131	-190	-177	-200	-222
% of GNP	7.4	7.0	2.2	3.6	6.5	7.2	2.5	3.9	4.2	5.8	4.8	5.0	5.2
% of Personal Savings	195.0	179.9	59.7	95.4	165.4	176.9	61.9	93.6	106.1	162.6	125.1	122.5	132.5
% of Net Domestic Savings	86.8	80.3	26.4	43.1	75.8	82.6	29.6	45.9	68.0	78.4	56.4	59.3	65.0

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson Hugh Graham and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — MARCH 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84:4	85 1	85:2	85:3	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,757	2,851	2,960	3,056	2,941	2,798	2 701	2 604	1,990	2,717	2,952	2,651	2,701
Percent Change - Year Ago	26.3	10.9	6.5	10.3	6.7	-1.9	-8.8	-14.8	-17.6	36.5	8.6	-10.2	1.9
Dollar Volume (billions)	229.4	242.1	254.7	268.3	252.1	246.3	243.4	237.2	160.2	225.8	254.3	237.8	254.4
Existing Home Prices - Median ($1000's)	70.2	72.3	73.8	75.7	74.2	76.5	78.5	79.5	67.8	70.3	74.0	78.3	82.5
Percent Change - Year Ago	4.0	5.7	5.7	6.5	5.7	5.8	6.4	5.0	2.1	3.7	5.3	5.7	5.5
Monthly Mortgage Payment (P&I, 80%. 30 yr.)	640	658	686	676	669	716	742	726	754	635	667	722	714
Percent of Household Income	22	22	22	22	21	22	23	22	28	22	22	22	20
NAR Affordability Index	85.2	85.7	85.5	85.4	88.8	86.6	84.6	83.9	68.4	82.2	86.4	85.6	88.3
New Single-Family Home Sales (thousands)	687	645	660	675	660	620	590	570	417	630	660	582	593
Percent Change - Year Ago	32.5	6.6	1.1	17.2	-3.9	-3.8	-10.6	-15.6	-4.4	50.9	4.7	-11.8	1.9
New Home Prices - Median ($1000's)	75.6	77.3	79.1	80.9	82.6	84.1	85.7	87.2	69.3	75.4	80.0	86.5	93.4
Percent Change - Year Ago	5.6	5.5	5.4	4.2	9.2	8.9	8.4	7.8	0.7	8.8	6.1	8.1	8.0
New Home Prices--Mean ($1000's, Quality Adjusted)	89.5	91.0	92.8	94.6	95.5	97.5	99.3	101.0	87.8	89.5	93.5	99.9	106.9
Percent Change - Year Ago	3.5	2.2	4.6	4.3	6.7	7.1	7.0	6.8	2.8	1.9	4.5	6.9	7.0
New Mortgage Commitments ($ billions)	170.8	176.0	178.5	180.8	181.7	175.8	167.5	159.9	64.8	165.1	179.3	166.7	173.0
Percent Change - Year Ago	80.8	22.6	15.9	-5.8	6.4	-0.1	-6.2	-11.6	8.1	154.7	8.6	-7.0	3.8
Mortgage Debt Outstanding ($ billions)	1,820	1,877	1,938	2,003	2 067	2,131	2,195	2 259	1,629	1,749	1,971	2,227	2,163
Homeowners' Equity ($ billions)	2 662	2,705	2,749	2,782	2,859	2,934	3,005	3,072	2 396	2,576	2 774	3,038	3,326
Housing Inventory (millions)	92.4	92.8	93.2	93.6	94.0	94.4	94.8	95.2	90.6	91.8	93.4	95.0	96.4
Private Housing Starts (thousands)	1,689	1,839	1,850	1,802	1,712	1,670	1,605	1,578	1,059	1,701	1,801	1,608	1,662
Single-Family	1,034	1 176	1,157	1,134	1,068	1,023	968	959	663	1,065	1,134	978	1,019
Percent of Total	61.2	64.0	62.5	62.9	62.4	61.3	60.3	60.7	62.8	62.7	62.9	60.8	61.3
Multi-Family	655	663	693	668	644	646	637	620	395	636	667	630	642
Percent of Total	38.8	36.0	37.5	37.1	37.6	38.7	39.7	39.3	37.2	37.3	37.1	39.2	38.7
Mobile Home Shipments (thousands)	305	305	307	306	304	306	303	296	240	297	305	300	308
Rental Vacancy Rate (%)	5.5	5.6	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	42.8	42.4	42.4	43.2	44.8	47.3	49.9	52.0	65.2	42.8	43.2	50.6	56.1
Office Vacancy Rate (%)<1>	12.4	11.6	11.2	10.6	10.0	9.5	9.0	8.8	8.0	11.7	10.8	9.0	8.6
Industrial Vacancy Rate (%)<1>	4.9	5.1	4.9	4.7	4.6	4.5	4.4	4.3	4.4	4.9	4.8	4.4	4.1
New Commercial Building Construction (% Ch Value)	12.1	14.7	15.7	15.7	15.5	11.4	10.6	9.5	9.0	-3.0	13.0	12.4	12.7
New Industrial Building Construction (% Ch Value)	-34.8	54.8	26.7	29.9	31.2	24.9	18.2	10.7	2.5	-24.1	10.5	22.7	17.5
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	4.9	7.1	9.3	6.8	5.3	5.6	5.2	7.3	6.6	11.0	7.6	6.2	6.6
M1 Velocity (% change)	4.1	4.5	1.2	2.6	3.8	1.8	2.2	0.4	-2.4	-3.0	2.9	2.0	0.9
M2 (% change)(FED Target 6-9%)	8.7	8.2	9.7	9.5	8.5	6.9	6.9	8.3	9.4	12.6	8.8	8.0	8.0
M2 Velocity (% change)	0.5	3.4	0.8	0.1	0.7	0.5	0.6	-0.6	-4.9	-4.4	1.8	0.3	-0.5
Monetary Base (% change)	8.1	7.1	8.0	7.3	7.1	6.8	6.8	7.0	6.6	9.1	7.6	7.0	6.5
Flow of Funds													
Supply (total)	342	351	362	375	391	401	405	411	209	282	370	409	422
Personal Savings	130	137	136	142	148	156	160	166	125	115	141	163	167
Savings Rate	5.4	5.5	5.4	5.5	5.6	5.8	5.8	5.9	5.8	4.9	5.5	5.9	5.6
Net Business Savings	105	107	106	106	110	116	115	113	37	78	107	114	114
State + Local Govt. Savings	57	63	65	66	65	62	59	59	31	51	65	60	59
Foreign Funds(current account deficit)	50	44	55	62	68	67	71	73	15	38	57	72	82
Demand (total)	423	409	238	333	436	466	286	295	160	316	354	361	339
Consumer Installment Debt(net change)	65	56	47	39	36	36	35	35	13	42	44	36	36
Commercial+Industrial Loans(net change)	13	4	8	57	66	70	72	28	23	-3	34	46	-3
Home Mortgage Debt(net change)	92	103	102	103	90	84	79	76	-7	86	99	79	84
Federal Deficit	253	246	81	135	245	276	99	155	131	190	177	200	222
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.4	13.4	13.3	13.1	13.3	13.8	14.0	13.5	16.6	13.4	13.3	13.6	12.7
30 Year,Fixed-Rate	14.1	14.1	14.0	13.8	14.0	14.5	14.7	14.2	17.3	14.1	14.0	14.3	13.4
1 Year ARM	12.3	12.3	12.2	12.2	12.6	13.2	13.5	13.1	14.6	11.9	12.3	13.2	12.6
Real Mortgage Rate (weighted average)	9.2	7.5	7.8	7.5	7.5	7.8	8.6	8.0	12.2	9.3	7.6	7.9	6.8
Corporate Bond Rate (AAA)	12.4	12.5	12.4	12.2	12.5	12.9	13.0	12.4	13.8	12.0	12.4	12.6	11.7
Government Bond Rate	11.2	11.2	11.0	10.9	11.2	11.6	11.7	11.3	13.0	10.6	11.1	11.5	10.5
Real Long-term Government Bond Rate	7.0	5.3	5.5	5.3	5.4	5.6	6.4	5.9	8.6	6.5	5.3	5.8	4.6
Federal Funds Rate	9.4	9.5	9.4	9.4	9.9	10.6	11.0	10.8	12.3	9.1	9.6	10.7	10.3
3 Month Treasury Bill Rate	8.8	8.9	8.8	8.8	9.2	9.8	10.1	9.8	10.6	8.6	8.9	9.8	9.4
Real 3 Month T-Bill Rate	4.6	3.0	3.3	3.2	3.4	3.8	4.8	4.4	6.2	4.5	3.2	4.2	3.5
1 Year Treasury Bill Rate	10.0	10.0	9.9	9.9	10.3	10.9	11.2	10.8	12.3	9.6	10.0	10.9	10.3
Commercial Paper Rate	9.2	9.1	9.1	9.1	9.6	10.3	10.7	10.4	11.9	8.9	9.2	10.4	9.9
Rate on Money Market Fund Shares	9.3	9.2	9.3	9.2	9.8	10.5	10.9	10.6	12.1	9.0	9.4	10.6	10.1
Prime Rate	11.0	11.0	11.0	11.1	11.3	11.9	12.4	12.2	14.9	10.8	11.1	12.1	11.5

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

Growth of real or inflation-adjusted Gross National Product (GNP) during the first quarter of 1984 is estimated to have surged to 7.2 percent, up from a revised 5.0 percent during the fourth quarter of 1983. The recovery continues to be led by strong consumer spending with businesses increasing production, inventories, and investment in equipment. Retail sales, which rose 3.3 percent in January, sustained that level in February. Automobile sales during the first quarter should average a 10.5 million annual rate, up from 9.9 million in the previous quarter.

However, the pace of economic growth should slow during the remainder of this year and 1985. Consumers are likely to slow their rate of spending in the months ahead to provide payment for purchases on time. Business investment in new plant and equipment is gradually improving but not enough to off set slower growth in consumer spending and residential investment. Real GNP growth should slow to 6 percent during the current quarter and to 3 percent during the final quarter of the year. During 1985 real growth should be 2.5 percent or less. There is some risk of a sharp decline in confidence among consumers, investors, and businesses which could abort the recovery during 1985.

The deficit reduction programs currently being debated in the Congress ($100-$200 billion over three years) will result in only modest reductions in inflation expectations and interest rates.

The strong growth of the economy continues to result in large increases in employment. During February civilian employment increased by 700,000 while the unemployment rate fell another 0.2 percentage points to 7.8 percent. Employment increased by 250,000 in March, but because of an almost equal number of new entrants into the labor force, the unemployment rate remained unchanged. The unemployment rate could fall as low as 7.0 percent by the fourth quarter before rising moderately during 1985 as the economy slows.

As expected, inflation has accelerated from the low rates of 1983. During the first quarter the Consumer Price Index rose an estimated 5.1 percent, up from 4.4 percent during the previous quarter. This acceleration should continue through this year with prices rising at a 6 percent annual rate by the fourth quarter.

Because of strong economic growth and some tightening of money growth by the Federal Reserve Board (FED) in late January, interest rates in general rose 1/2 to 3/4 of a percentage point during February and March. Most indexes of stock prices fell 5 to 10 percent during the same period. The FED will likely continue its policy of restraint although the money supply should grow at the upper end of the target ranges. Also, the Treasury may play an unusual role around election time by adding to the money supply through changes in the timing of drawing down its cash balances in commercial banks. There may be some additional modest rise in interest rates during the current quarter including another boost in the prime rate. However, there is room for modest declines in interest rates during the summer as the pace of the recovery slows and federal borrowing requirements are seasonally low. Regardless, interest rates could trend upward late this year and during 1985 as the demand for funds by the federal government comes into increasing conflict with increasing private credit demand and foreign lenders consider investments closer to home.

Real Estate Markets

Widespread use of adjustable rate mortgages (ARMs) and a strong "buy now" attitude have combined to produce sizeable increases in activity in housing markets. In February sales of existing single-family homes stood at a seasonally adjusted annual rate of 2,870,000 units, 17.6 percent above the same month a year ago. In the same month housing starts increased 11.2 percent over the January level to a seasonally adjusted annual rate of 2,197,000--the highest level since April of 1978.

For all of 1984 resales should total 2.9 million to 3.0 million units while starts should total about 1.9 million units. Rising interest rates late this year and through 1985 should cause resales and starts to decline to 2.5 million units and 1.6 million units, respectively.

Commercial and industrial construction increased during the first quarter of this year and should continue robust for stores and manufacturing and other commercial buildings.

Table 1

U.S. ECONOMIC OUTLOOK

APRIL 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84:4	85:1	85:2	85:3	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,436	3,538	3,638	3,721	3,799	3,875	3,944	4,015	3,073	3,310	3,674	3,982	4,312
Percent Change	9.1	12.4	11.8	9.5	8.7	8.2	7.3	7.4	4.0	7.7	11.0	8.4	8.3
Percent Change (without inflation)	5.0	7.2	6.0	4.0	3.0	1.8	1.4	1.5	-1.9	3.4	6.0	2.5	1.9
Consumption	6.5	6.1	4.0	3.0	2.6	2.1	2.1	1.8	1.4	4.2	4.9	2.4	1.6
Durables	19.9	23.5	5.4	3.1	2.8	1.2	2.1	1.1	-0.9	11.8	13.1	2.1	0.7
Nondurables	4.8	4.6	2.2	2.1	1.8	1.6	1.4	1.4	0.5	3.3	3.7	1.7	1.2
Services	3.7	1.7	4.9	3.7	3.2	2.9	2.6	2.4	2.9	2.7	3.2	3.0	2.2
Residential Investment	-6.9	28.5	16.5	6.9	-9.3	-12.8	-10.6	-6.7	-15.3	39.4	16.3	-6.3	2.8
Nonresidential Investment	27.4	8.8	7.9	7.6	6.9	6.4	5.9	5.5	-4.7	1.4	12.7	6.4	4.8
Structures	6.8	7.0	7.1	6.3	5.0	4.8	4.4	4.0	1.8	-6.9	5.7	4.9	3.6
Equipment	36.5	9.6	8.2	8.1	7.6	7.0	6.5	6.1	-7.5	5.3	15.5	7.0	5.2
Exports	-0.3	9.5	6.0	5.4	6.3	7.0	6.9	5.9	-7.8	-5.8	5.9	6.4	4.8
Imports	29.4	18.0	12.3	10.2	8.9	4.9	5.9	4.8	1.4	7.2	17.7	6.8	3.4
Government Purchases	-3.9	-4.2	20.5	3.9	3.2	1.9	3.5	2.4	1.8	0.5	2.9	3.8	2.9
Consumption (% of GNP)	65.6	65.4	65.1	64.9	64.8	64.9	65.0	65.0	65.3	65.9	65.1	65.0	64.8
Residential Investment (% of GNP)	3.5	3.7	3.8	3.8	3.7	3.6	3.5	3.4	2.5	3.4	3.8	3.4	3.5
Nonresidential Investment (% of GNP)	11.5	11.5	11.6	11.7	11.8	11.9	12.0	12.1	11.2	11.0	11.6	12.1	12.4
Inventory Change ($ billions)	19.6	46.3	38.6	47.3	55.6	53.3	44.0	37.8	-24.6	-6.5	47.0	42.1	24.6
Mfg. Capacity Utilization Rate (%)	79	81	82	83	83	83	83	82	71	75	82	83	82
Auto Sales (millions of units)	9.9	10.5	10.6	10.6	10.6	10.6	10.6	10.5	8.0	9.2	10.6	10.5	10.3
Domestic (% of total)	72.7	79.1	77.9	75.4	75.1	77.2	77.3	75.3	72.3	73.8	76.9	75.9	73.4
Imported (% of total)	27.2	20.9	22.1	24.6	24.9	22.8	22.7	24.7	27.9	26.1	23.1	24.1	26.6
Manufacturing Industrial Production (% change)	9.9	12.5	8.4	5.6	3.5	2.7	2.2	1.2	-8.5	7.8	11.4	3.2	2.2
Common Market	3.5	3.0	4.2	3.7	3.2	2.0	1.6	1.7	-1.7	0.6	3.0	2.4	1.5
Japan	8.6	10.3	4.5	2.3	2.6	6.2	3.0	2.5	0.4	3.5	7.6	3.5	2.9
Employment(millions)(civilian:household basis)	102.5	103.8	104.8	105.7	106.5	107.0	107.5	107.8	99.5	100.8	105.2	107.6	109.0
Unemployment Rate (%) (civilian)	8.5	7.8	7.4	7.2	7.0	7.0	7.1	7.3	9.7	9.6	7.4	7.2	7.7
Personal Income per Household (average)<1>	36,497	37,472	38,265	39,040	39,775	40,580	41,251	41,954	33,633	35,433	38,638	41,634	44,659
Percent Change -- Year Ago (w/o inflation)	3.2	4.5	4.5	4.7	3.3	2.2	1.8	1.4	-0.8	1.3	4.3	1.7	1.1
Personal Taxes per Household (average)	6,588	6,763	6,934	7,093	7,239	7,360	7,484	7,630	6,426	6,513	7,007	7,570	8,415
Percent Change -- Year Ago (w/o inflation)	-1.7	1.1	0.9	5.2	4.6	3.2	2.2	1.7	-2.3	-2.7	2.9	2.2	4.6
Percent of Personal Income	18.8	18.8	18.9	19.0	19.0	19.0	19.0	19.0	19.9	19.2	18.9	19.0	19.7
Disposable Income per Household (average)	29,909	30,709	31,331	31,948	32,536	33,220	33,767	34,324	27,206	28,920	31,631	34,063	36,244
Percent Change--Year Ago (w/o inflation)	4.2	5.4	5.4	4.6	3.3	2.2	1.8	1.4	-0.4	2.3	4.6	1.7	0.4
Household Interest Payments (% of total)	10.1	10.4	10.6	10.1	10.0	10.0	10.1	10.4	9.6	9.8	10.3	10.2	10.0
Net Worth per Household (average)	75,173	75,890	77,620	79,225	80,629	82,028	83,486	84,910	66,453	74,134	78,341	84,238	91,304
Percent Change -- Year Ago (w/o inflation)	3.5	1.6	0.0	0.8	2.1	2.5	1.9	1.3	-1.8	7.1	1.1	1.7	2.0
Consumer Price Inflation (CPI)	4.4	5.1	5.5	5.9	6.2	6.1	5.9	5.9	6.2	3.2	5.1	6.0	6.2
Gross National Product Inflation (GNP Deflator)	3.9	4.7	5.2	5.1	5.2	6.3	5.8	5.8	6.0	4.2	4.5	5.7	6.2
Personal Consumption Inflation	2.6	4.2	5.8	5.7	5.8	6.0	5.9	5.9	5.8	3.9	4.5	5.9	6.0
Residential Construction Inflation	-0.4	1.9	5.4	6.4	6.9	7.2	7.4	7.3	2.8	2.3	3.5	7.0	7.8
Nonresidential Construction Inflation	0.9	2.9	5.7	6.8	7.3	7.8	7.8	7.7	4.7	-0.7	3.2	7.5	8.1
Producers Price Inflation (WPI)	3.7	2.6	6.0	6.2	5.9	5.8	6.5	6.4	2.0	1.3	4.2	6.1	6.5
Compensation per Manhour (% change)	4.5	6.8	6.7	6.9	7.2	8.2	7.1	7.2	7.9	5.6	5.9	7.4	7.7
Productivity (% change)	1.2	1.5	2.2	2.1	2.0	1.7	1.4	1.4	0.0	3.1	2.1	1.8	1.3
Unit Labor Cost (% change)	3.6	5.1	4.4	4.7	5.0	6.3	5.6	5.7	7.9	2.4	3.7	5.5	6.3
Unit Capital Cost (% change)	5.7	5.2	4.9	4.7	4.6	4.6	4.5	4.5	9.5	6.9	4.9	4.6	4.7
Before Tax Corporate Profits ($ billions)<2>	237	238	255	261	265	264	262	260	190	217	255	261	269
Corporate Tax Liability	85	86	94	96	98	96	93	91	59	77	93	93	95
'Windfall Profits' Tax Receipts	9	9	9	9	9	9	9	9	16	10	9	9	9
After Tax Profits	143	144	153	156	159	160	161	160	115	131	153	159	165
Inventory Valuation Adjustment	-6	-10	-20	-27	-27	-27	-30	-32	-8	-9	-21	-31	-35
Capital Consumption Adjustment	46	55	58	60	63	69	71	74	-1	31	59	73	78
Profits from Current Production (with IVA, CCA)	183	189	190	190	195	201	202	202	106	152	191	202	208
Adjusted for Inflation (83:1 base)	178	182	181	178	180	184	181	180	109	150	180	180	175
Percent Change - Year Ago	62.8	50.8	28.4	11.0	1.3	1.3	0.2	0.7	-8.9	38.0	20.2	0.0	-3.1
Per Unit of Output (% of GNP)	5.3	5.3	5.2	5.1	5.1	5.2	5.1	5.0	3.4	4.6	5.2	5.1	4.8
Effective Corporate Tax Rate (%)<2>	32	32	33	34	34	33	32	31	37	34	33	32	32
Federal Tax Receipts (Unified basis)	598	593	786	692	650	655	843	756	609	613	680	740	831
Percent of GNP	17.4	16.8	21.6	18.6	17.1	16.9	21.4	18.8	19.8	18.5	18.5	18.6	19.3
Federal Expenditures (Unified basis)	851	851	869	828	903	940	956	950	740	803	863	959	1,051
Percent of GNP	24.8	24.1	23.9	22.3	23.8	24.3	24.2	23.7	24.1	24.3	23.5	24.1	24.4
Surplus or Deficit (Unified basis)	-253	-259	-82	-136	-253	-284	-113	-194	-131	-190	-182	-220	-220
% of GNP	7.4	7.3	2.3	3.7	6.7	7.3	2.9	4.8	4.2	5.8	5.0	5.5	5.1
% of Personal Savings	201.7	188.4	60.3	96.1	174.2	180.0	71.1	119.5	106.1	164.3	129.7	134.8	129.3
% of Net Domestic Savings	87.2	82.5	26.0	42.6	78.1	84.2	33.9	58.0	68.0	78.5	57.3	65.3	65.3

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — APRIL 1984

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	83:4	84:1	84:2	84:3	84:4	85:1	85:2	85:3	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,757	2,903	3,004	3,003	2,955	2,703	2,551	2.452	1,991	2,719	2,966	2,501	2,701
Percent Change - Year Ago	26.3	13.0	8.1	8.4	7.2	-6.9	-15.1	-18.4	-17.7	36.6	9.1	-15.7	8.0
Dollar Volume (billions)	229.4	246.6	258.6	263.7	253.2	238.0	229.9	223.3	159.9	224.5	255.5	224.1	254.7
Existing Home Prices - Median ($1000's)	70.2	72.3	73.8	75.7	74.2	76.5	78.5	79.5	67.7	69.9	74.0	78.1	82.7
Percent Change - Year Ago	4.0	5.7	5.7	6.5	5.7	5.8	6.4	5.0	2.4	3.2	5.9	5.6	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	632	646	668	690	676	707	732	752	754	633	670	731	731
Percent of Household Income	22	22	22	22	21	22	22	22	28	22	22	22	21
NAR Affordability Index	85.2	87.0	86.2	83.9	86.6	84.9	83.6	83.1	68.4	82.2	85.9	84.5	87.1
New Single-Family Home Sales (thousands)	671	700	710	720	700	670	620	580	417	626	708	605	650
Percent Change - Year Ago	30.3	17.1	9.6	22.7	4.4	-4.3	-12.6	-19.5	-4.3	50.1	13.1	-14.5	7.4
New Home Prices - Median ($1000's)	76.3	76.7	78.1	79.6	81.2	82.8	84.4	86.1	69.3	75.6	78.9	85.3	92.8
Percent Change - Year Ago	6.5	4.7	4.2	2.5	6.4	7.9	8.0	8.1	0.7	9.0	4.4	8.1	8.8
New Home Prices--Mean ($1000's, Quality Adjusted)	89.5	90.7	92.1	93.7	94.1	96.6	98.5	100.4	87.8	89.5	92.7	99.1	106.9
Percent Change - Year Ago	3.5	1.9	3.8	3.3	5.1	6.5	6.9	7.2	2.8	1.9	3.5	7.0	7.8
New Mortgage Commitments ($ billions)	164.1	194.6	165.0	165.2	167.1	169.0	171.0	176.8	64.8	163.4	173.0	175.1	196.9
Percent Change - Year Ago	73.7	35.5	7.1	-14.0	1.8	-13.2	3.6	7.0	8.1	152.1	5.8	1.2	12.5
Mortgage Debt Outstanding ($ billions)	1,820	1,876	1,933	1,992	2,052	2,113	2,175	2,242	1,629	1,749	1,963	2,210	2,153
Homeowners' Equity ($ billions)	2,671	2,707	2,742	2,761	2,814	2,881	2,950	3,020	2,396	2,581	2,756	2,986	3,295
Housing Inventory (millions)	92.4	92.8	93.2	93.7	94.1	94.5	94.9	95.2	90.6	91.8	93.4	95.1	96.5
Private Housing Starts (thousands)	1,699	2,010	1,928	1,864	1,752	1,642	1,601	1,573	1,056	1,704	1,889	1,601	1,705
Single-Family	1,037	1,292	1,286	1,234	1,129	1,031	997	986	663	1,066	1,235	1,003	1,101
Percent of Total	61.1	64.3	66.7	66.2	64.4	62.8	62.3	62.7	62.8	62.6	65.4	62.7	64.5
Multi-Family	661	718	642	629	623	611	604	587	394	637	653	598	604
Percent of Total	38.9	35.7	33.3	33.8	35.6	37.2	37.7	37.3	37.2	37.4	34.6	37.3	35.5
Mobile Home Shipments (thousands)	310	313	314	305	313	312	310	306	240	296	311	308	315
Rental Vacancy Rate (%)	5.5	5.6	5.5	5.5	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	43.9	43.8	43.8	44.9	46.7	48.4	49.9	51.6	65.2	43.1	44.8	50.6	53.6
Office Vacancy Rate (%)<1>	12.4	11.6	11.2	10.6	10.0	9.5	9.0	8.8	8.0	11.7	10.8	9.0	8.6
Industrial Vacancy Rate (%)<1>	4.9	5.1	4.9	4.7	4.6	4.5	4.4	4.3	4.4	4.9	4.8	4.4	4.1
New Commercial Building Construction (% Ch Value)	15.3	62.8	0.6	7.4	5.6	4.9	4.5	4.2	9.0	-2.8	18.9	4.9	7.8
New Industrial Building Construction (% Ch Value)	-34.1	46.0	25.7	29.9	38.1	33.0	24.8	13.7	2.5	-24.0	9.3	27.6	19.7
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	4.9	8.1	9.0	6.6	5.1	6.2	6.0	5.9	6.6	11.0	7.7	6.2	6.1
M1 Velocity (% change)	4.0	4.0	2.6	2.8	3.4	1.9	1.2	1.4	-2.4	-3.0	3.0	2.1	2.0
M2 (% change)(FED Target 6-9%)	8.7	8.5	9.6	9.0	7.7	6.5	6.6	9.2	9.4	12.6	8.7	7.8	8.7
M2 Velocity (% change)	0.3	3.6	2.0	0.5	0.9	1.6	0.6	-1.6	-4.9	-4.4	2.1	0.5	-0.4
Monetary Base (% change)	7.8	8.3	8.1	6.9	7.1	6.6	6.9	7.4	6.9	9.5	8.0	7.0	6.2
Flow of Funds													
Supply (total)	352	376	387	399	413	425	422	425	209	285	394	426	429
Personal Savings	126	137	137	142	145	158	159	162	125	114	140	162	171
Savings Rate	5.2	5.5	5.4	5.4	5.5	5.8	5.7	5.7	5.8	4.9	5.4	5.8	5.7
Net Business Savings	107	110	110	107	109	114	112	110	37	79	109	111	109
State + Local Govt. Savings	58	66	70	71	69	66	63	62	31	51	69	63	58
Foreign Funds(current account deficit)	61	62	70	80	89	87	89	91	15	41	75	90	92
Demand (total)	431	452	232	315	424	454	291	369	163	317	356	392	370
Consumer Installment Debt(net change)	65	59	50	42	39	38	39	39	13	42	48	38	40
Commercial+Industrial Loans(net change)	21	34	12	51	56	56	65	54	23	-2	38	54	21
Home Mortgage Debt(net change)	92	100	87	86	76	76	74	82	-4	86	87	80	89
Federal Deficit	253	259	82	136	253	284	113	194	131	190	182	220	220
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.3	13.1	13.3	13.4	13.4	13.6	13.7	14.0	16.6	13.3	13.3	13.8	13.0
30 Year,Fixed-Rate	13.9	13.8	14.0	14.1	14.1	14.3	14.4	14.7	17.3	14.0	14.0	14.5	13.7
1 Year ARM (without buy-down)	12.0	12.0	12.8	12.7	12.9	13.1	13.1	13.3	14.3	11.6	12.6	13.2	12.4
Real Mortgage Rate (weighted average)	9.3	8.4	8.1	8.3	8.2	7.3	8.0	8.2	12.2	9.3	8.3	7.7	6.7
Corporate Bond Rate (AAA)	12.4	12.6	12.8	12.9	13.0	13.1	13.2	13.2	13.8	12.0	12.8	13.2	12.5
Government Bond Rate	11.9	11.8	12.2	12.4	12.5	12.6	12.7	12.7	12.9	11.3	12.2	12.6	11.9
Real Long-term Government Bond Rate	8.0	7.1	7.0	7.3	7.2	6.3	6.9	6.9	8.6	7.3	7.2	6.6	5.6
Federal Funds Rate	9.4	9.6	10.2	10.0	10.3	10.4	10.5	10.8	12.3	9.1	10.0	10.6	9.8
3 Month Treasury Bill Rate	8.8	9.1	9.7	9.7	9.9	10.0	10.0	10.2	10.6	8.6	9.6	10.0	9.5
Real 3 Month T-Bill Rate	4.9	4.4	4.5	4.6	4.6	3.7	4.2	4.4	6.2	4.5	4.5	4.0	3.2
1 Year Treasury Bill Rate	10.0	10.0	10.8	10.7	10.9	11.1	11.1	11.3	12.3	9.6	10.6	11.2	10.4
Commercial Paper Rate	9.2	9.3	10.1	10.0	10.2	10.2	10.3	10.6	11.9	8.9	9.9	10.4	9.7
Rate on Money Market Fund Shares	9.3	9.4	10.2	10.2	10.4	10.4	10.5	10.8	12.1	9.0	10.0	10.6	9.9
Prime Rate	11.0	11.1	11.8	11.9	12.0	12.1	12.2	12.1	14.9	10.8	11.6	12.1	11.4

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Aggregate Economy

Despite the fact that the preliminary estimate of real or inflation-adjusted Gross National Product (GNP) growth for the first quarter is an annualized rate of 8.3 percent, the recovery has been slowing since the second quarter of 1983 and is expected to continue to slow during the remainder of 1984 and through 1985. Nearly 60 percent of the increase in GNP during the first quarter was due to an unexpectedly large increase in business inventory investment which is unlikely to be repeated in subsequent quarters. Final sales, which is defined as GNP less the change in business inventories, increased just 3.6 percent from January through March compared to 3.7 percent during October through December 1983 and 5.1 percent during July through September 1983. The rate of growth of nearly every major component of GNP was less than during the final quarter of 1983.

Real GNP growth during the second quarter of 1984 should be about 4-1/2 percent, then declining to 4 percent in the third quarter and 3 percent during the fourth quarter. The second quarter growth estimate of 4.5 percent is somewhat higher than many other private forecasters since we anticipate that automobile production and sales and overall business inventory investment will remain strong during the next few months. As interest rates rise through 1985 real GNP growth should continue to decline, possibly falling to just one percent during the fourth quarter. In fact there is some risk of a shallow recession during 1985. Modest improvement in overall economic activity in 1986 may follow.

The underlying factor behind the slowdown of the recovery is that, due to the enormous burden of financing the deficit, interest rates are simply too high to allow the level of business investment spending necessary to sustain strong growth rates. Consumers remain confident but have definitely begun to scale back their spending. Residential investment has been surprisingly strong, due in large measure to the widespread use of Adjustable Rate Mortgages, but should gradually taper off as the year proceeds. Moreover, increasing private credit demands in conjunction with a nearly $200 billion federal deficit and continued monetary restraint portend rising interest rates by the end of 1984 and through 1985.

Employment continues to grow but at a slower rate. In March and April civilian employment increased by 250,000 and 260,000, respectively, compared to 700,000 in February. The unemployment rate remained unchanged at 7.8 percent in February, March and April but should decline slowly during the remainder of the year before rising during 1985.

With manufacturing capacity utilization now at about 81 percent, inflation caused by shortages of capacity and skilled labor should continue to accelerate. During the first quarter of 1984 the Consumer Price Index (CPI) increased at an annual rate of 5 percent compared to 4.4 percent during the previous quarter. This modest acceleration should continue through 1984 with prices rising at an annual rate of about 6 percent or higher by the end of the year. However, slower growth of the economy should limit inflation to the 6 to 7 percent level from the summer of 1984 through 1985.

Fiscal Policy

The federal deficit is likely to be $184 billion for 1984 but increase above $200 billion in 1985 and subsequent years. The current federal deficit is providing a very strong 5-1/2 percent greater demand for goods and services than would exist without it and thus contributing to the currently high real growth rate and acceleration of inflation. Unfortunately, the deficit is taking 60 to 70 percent of net domestic savings that would otherwise be used for investment needed to increase the economy's productive capacity and using that savings for consumption. Instead of the economy moving toward greater growth through higher levels of savings and investment, it is moving in the opposite direction--less savings and investment and therefore slower growth of the American standard of living in the future. The high interest rates resulting from the deficit have also caused the U.S. dollar to be overvalued relative to other major currencies, thus hurting domestic export industries and industries which compete with foreign imports.

Table 1

Distribution of GNP by Component

(Percent)

	Personal Consumption	Fixed Investment			Government Purchases of Goods/ Services	Inventory Investment	Net Exports
		Total	Non Residential	Residential			
1976-80 average	62.8	15.8	4.6	11.2	20.3	0.7	0.4
1981-85 average	64.3	14.9	3.7	11.2	20.6	0.4	-0.3

The forecast assumes that a deficit reduction compromise package is enacted in 1984 with only modest impact during 1985 or is enacted in 1985 with significant impact in 1986 and beyond. In either case the deficit is reduced by only $40 billion by 1986, which results in a deficit of $220 billion rather than the $260 billion which is likely to occur if nothing is done. The expected deficit reduction package is too little and too late to avoid a serious run-up of interest rates by the end of 1984 and during 1985 and is far too modest to lower real interest rates by more than one percentage point. About all the deficit-reduction legislation currently under discussion will do is keep the deficit between $200 and $300 billion during the next five years.

These deficit reduction packages are also counter-productive to the extent that they involve tax increases which discourage investment, such as the extension of the cost recovery (depreciation) period for structures endorsed by Senator Dole and approved by the full Senate. The purpose of reducing the deficit is to reduce interest rates and thereby promote investment in housing, commercial and industrial structures, and equipment. However, the modest decline in interest rates that can be anticipated from the deficit-reduction

provided by these increases in tax revenue is not sufficient to offset the disincentive created by the tax increase. Analysis indicates that the net effect would be a lower level of investment in structures.

Monetary Policy and Interest Rates

Interest rates continued to edge up in April due to increasing credit demands in the private sector, a continued tight policy stance by the Federal Reserve Board (FED), and investor fears of an overheating economy and higher inflation in the future. Consumer installment debt continued to increase at a strong pace although below the peak increase of February. Large increases in outstanding business loans were reported as firms financed large increases in inventories and investments in new equipment.

Table 2

Yields on Selected Treasury Securities

		3-Month Bills	5-Year Notes	30-Year Bonds
1984:	JAN	8.90%	11.37%	11.75%
	FEB	9.09	11.54	11.95
	MAR	9.52	12.02	12.38
	APR	9.70	12.36	12.64

The FED tightened the growth of the money supply early in the first quarter in response to evidence that M1 was beyond the FED's upper target and that the rate of growth of the economy had become inflationary. This tightening has been successful in that the most recently available figures indicate that both M1 and M2 are now in about the mid-point of their respective target ranges.

Table 3

Compound Annual Growth Rates of Monetary Aggregates

		M1	M2	M3
1983:	NOV	3.3	8.6	15.4
	DEC	5.4	8.0	8.3
1984:	JAN	11.3	5.9	6.8
	FEB	6.8	8.7	10.9
	MAR	5.3	3.7	9.0
	APR	-1.7[E]	NA	NA
1984 Targets		4-8%	6-9%	6-9%

[E]Estimate.

It appears that the FED has a dual motive for this rather restrictive policy stance. Foremost is to cool the economy to prevent a major resurgence of inflation. This will also allay fears in credit markets and may result in lower interest rates this summer. However, at this time the FED posture is particularly restrictive. Current growth rates of M1 and M2 are consistent with just a 2.5 percent growth rate for real GNP. This leads to the suspicion that the FED also intends to keep upward pressure on interest rates to keep Congress' attention on the need for deficit reduction legislation.

Because of tight FED policies, the growing private credit needs associated with an expanding economy, and the continued enormous federal deficit, the trend for interest rates has been upward and will likely continue on that trend with perhaps a brief pause during the summer. By the first quarter of 1985 the 3-month T-bill rate should be up to about 10.5 percent while 30-year T-bonds should be up 30 to 40 basis points to about 13 percent. Rates are expected to continue rising during 1985, causing substantial reductions in activity in the interest-sensitive sectors of the economy and overall real GNP growth rates under 2 percent. In fact, there is a significant risk that the runup in rates in 1985 will be steep enough to cause a mild recession.

However, during the summer interest rates may temporarily decline as investors become more confident that the economy is indeed cooling off. Another significant factor in this short-term outlook is that the Treasury now has just over $20 billion of cash balances, much of it deposited at the FED rather than in commercial banks. These unusually large cash balances may be precautionary in anticipation of a delay in Congressional action on the federal debt ceiling which will need to be lifted later this spring. Nevertheless, as these balances are transferred from the FED to the commercial banking system there is likely to be some easing of interest rates, perhaps timed for the November election.

Housing

Single-family housing markets remained strong in March despite slight increases in mortgage rates. The seasonally-adjusted annual rate of existing single-family home sales rose to 3,030,000 units in March, up 4.1 percent over the February figure and the highest level in more than three years. In contrast, housing starts fell 26.6 percent in March over February to a seasonally adjusted annual rate of 1,638,000 units while building permits fell 12 percent to a seasonally adjusted annual rate of 1,714,000 units. Even with this decline, however, housing starts averaged 1,950,000 units during the first quarter of this year, up 14.8 percent over the fourth quarter of 1983.

The 0.04 percentage point rise in mortgage rates on loans closed during March, combined with increases in home prices, resulted in a 0.5 percentage point decline in the NATIONAL ASSOCIATION OF REALTORS®' Housing Affordability Index. The March figure of 86.4 means that a family earning the median income had 86.4 percent of the income needed to qualify for the purchase of a median-priced existing home.

Resales should remain around the 3 million unit level during the prime selling months of spring and early summer. However, rising interest rates later in the year should cause resales to fall off to a 2.7 million rate by

year end. As rates continue to rise through 1985 resales should fall off to about 2.5 million units but then rebound in 1986.

Housing starts should decline from the 1.95 million unit pace of the first quarter to 1.65 million units by the end of 1984. Rising interest rates, a slowing economy, and growing inventories of unsold homes should cause starts to fall to the 1.5 million unit level in 1985.

Prices of resale homes continue to rise at roughly the overall rate of increase of consumer prices. In March the median price of existing single-family homes sold stood at $72,400, 5.1 percent ahead of a year ago. By year end existing home prices should be rising about 5.5 percent. In 1985 the median price is likely to also rise about 5.5 percent, somewhat less than the rate of inflation due to a greater number of houses for sale relative to the number of buyers than in 1984.

The median price of new homes sold in March was $78,700--8.6 percent above a year ago. However, the rate of increase of new home prices should abate to about 6 percent by year end as builders' inventories of unsold units increase.

Multifamily construction has increased both in absolute level and relative to single-family construction thus far during the recovery. In 1983, 637,000 multifamily units were started (about 600 million square feet) representing 37.4 percent of total starts. Both the 1983 level and proportion of total starts were the highest since the HUD-subsidized era of the early 1970s. Two factors appear to be responsible for this development--stimulus provided by the Accelerated Cost Recovery System enacted into law in 1981 and strong demand for condominiums as a lower cost alternative to single-family homes. The level of multifamily starts should rise to 645,000 units in 1984, however, this level should represent a somewhat smaller proportion of total starts. In 1985 multifamily starts are expected to decline about 13 percent to 560,000 units.

Nonresidential Real Estate

The current recovery of nonresidential building is typical in that 1983 saw a strong recovery of retail (stores and warehouses) building construction which should continue through 1984 and 1985 but at a slower rate of increase. Retail building follows very closely the cycle of residential construction.

After a very steep drop during the past recession, construction of manufacturing or industrial buildings is making a fairly strong turnaround in 1984 that should continue through 1985 and 1986. A primary reason for this turnaround is that due to low levels of investment during the previous decade much of our existing manufacturing capacity is obsolete. However, this sector has a long way to go to fully recover. The 1984 forecast of 140 million square feet of space contracted is below the worst year of the mid-1970s recession.

However, office building is likely to decline in 1984 and continue to gradually decline for the next several years to correct for an oversupply of 200 to 250 million square feet (about one full years demand for additional space). Office building construction was on a boom of its own during the 1981 through 1983 period. In fact, construction increased in 1983 despite a sharply rising vacancy rate. Slowing growth of white collar employment expected through the

1980s puts demand growth at about 225 million square feet per year. The 1984 forecast of 236 million square feet is a decline over 1983 but is still above projected demand. An excess supply correction is expected for 1985 and 1986 with square footage falling to 100--150 million square feet range. The correction is expected to be gradual, however, since oversupply is concentrated geographically in the South and Southwest (Denver, Dallas, Houston, and San Diego in particular). Other large markets, such as New York and Chicago, are in relative balance at this time.

Table 4
Commercial and Industrial Building Contracts

	Retail Buildings		Office Buildings		Industrial Buildings	
Year	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	- 9%
1984[F]	446	+23%	236	-16%	140	+31%
1985[F]	450	+ 1%	100	-58%	154	+10%

[F]Forecast.

Table 5

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,541	3,626	3,714	3,798	3,879	3,951	4,021	4,092	3,073	3,310	3,670	3,986	4,322
Percent Change	12.8	9.9	10.0	9.4	8.8	7.7	7.3	7.2	4.0	7.7	10.8	8.6	8.4
Percent Change (without inflation)	8.3	4.5	4.0	3.0	2.5	2.0	1.5	1.0	-1.9	3.4	6.1	2.6	2.1
Consumption	5.8	4.0	2.5	1.7	2.1	2.6	2.6	2.1	1.4	4.2	4.7	2.3	2.0
Durables	17.2	10.4	0.6	-1.2	0.9	2.8	3.3	2.3	-0.9	11.8	12.0	1.8	2.4
Nondurables	5.9	1.2	1.9	1.4	1.8	2.2	2.0	1.7	0.5	3.3	3.7	1.8	1.6
Services	2.0	4.1	3.5	3.0	2.7	2.9	2.7	2.4	2.9	2.7	3.1	2.9	2.2
Residential Investment	31.0	6.0	2.3	-8.0	-9.2	-8.1	-10.8	-3.7	-15.3	39.4	14.3	-6.4	2.8
Nonresidential Investment	12.0	7.8	7.6	6.6	6.0	5.7	5.4	4.9	-4.7	1.4	13.5	6.2	4.9
Structures	25.9	6.8	5.9	4.6	4.4	3.9	3.4	1.8	1.8	-6.9	10.0	4.4	2.5
Equipment	7.0	8.2	8.4	7.4	6.6	6.4	6.2	6.1	-7.5	5.3	14.9	6.9	5.8
Exports	9.7	5.4	5.3	6.0	6.6	7.1	6.1	5.5	-7.8	-5.8	5.9	6.2	4.9
Imports	41.9	9.0	9.8	7.0	6.8	5.6	4.2	3.2	1.4	7.2	22.4	6.5	3.3
Government Purchases	-0.8	17.7	3.8	3.2	0.9	3.2	2.6	2.2	1.8	0.5	3.3	3.4	3.0
Consumption (% of GNP)	65.3	65.2	64.9	64.7	64.6	64.7	64.9	65.1	65.3	65.9	65.0	64.8	64.7
Residential Investment (% of GNP)	3.7	3.7	3.7	3.6	3.5	3.4	3.3	3.3	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.6	11.7	11.8	11.9	12.0	12.1	12.2	12.3	11.2	11.0	11.7	12.1	12.5
Inventory Change ($ billions)	62.2	45.4	57.6	68.5	76.8	70.4	60.6	45.8	-24.6	-6.5	58.4	63.4	43.6
Mfg. Capacity Utilization Rate (%)	81	82	82	82	82	82	82	82	71	75	82	82	82
Auto Sales (millions of units)	10.6	10.6	10.5	10.3	10.2	10.2	10.3	10.3	8.0	9.2	10.5	10.2	10.3
Domestic (% of total)	78.0	77.4	75.3	74.8	76.5	76.6	74.8	73.8	72.3	73.8	76.4	75.4	73.5
Imported (% of total)	22.0	22.6	24.7	25.2	23.5	23.4	25.2	26.2	27.9	26.1	23.6	24.6	26.5
Manufacturing Industrial Production (% change)	11.9	7.7	6.5	2.7	2.2	2.8	2.0	1.3	-8.5	7.8	11.2	3.2	2.2
Common Market	3.8	3.0	3.1	3.6	2.2	1.6	1.8	2.0	-1.4	0.6	3.3	2.4	1.6
Japan	12.0	4.4	2.1	2.4	6.0	2.9	2.4	1.0	0.4	3.4	8.1	3.4	2.9
Employment(millions)(civilian:household basis)	103.7	104.7	105.5	106.2	106.8	107.3	107.7	108.0	99.5	100.8	105.1	107.4	108.9
Unemployment Rate (%) (civilian)	7.9	7.6	7.4	7.2	7.2	7.3	7.4	7.5	9.7	9.6	7.5	7.3	7.8
Personal Income per Household (average)<1>	37,589	38,252	38,979	39,758	40,637	41,356	42,067	42,761	33,633	35,433	38,644	41,705	44,772
Percent Change -- Year Ago (w/o inflation)	5.2	4.8	4.6	3.2	1.7	1.7	1.8	1.6	-0.8	1.3	4.4	1.7	1.3
Personal Taxes per Household (average)	6,771	6,901	7,040	7,195	7,348	7,506	7,657	7,807	6,426	6,513	6,977	7,580	8,446
Percent Change -- Year Ago (w/o inflation)	1.4	0.6	4.4	3.7	2.6	2.7	2.7	2.5	-2.3	-2.7	2.5	2.6	5.0
Percent of Personal Income	18.8	18.8	18.9	18.9	18.9	19.0	19.0	19.1	19.9	19.2	18.8	19.0	19.7
Disposable Income per Household (average)	30,816	31,351	31,938	32,563	33,289	33,849	34,410	34,954	27,206	28,920	31,667	34,126	36,326
Percent Change--Year Ago (w/o inflation)	6.0	5.7	4.6	3.2	1.8	1.7	1.7	1.5	-0.4	2.3	4.9	1.6	0.5
Household Interest Payments (% of total)	10.3	10.6	10.1	10.1	10.0	10.2	10.5	10.5	9.6	9.8	10.3	10.3	10.1
Net Worth per Household (average)	75,588	77,110	78,630	80,087	81,435	82,761	84,060	85,588	66,453	74,134	77,854	83,461	90,547
Percent Change -- Year Ago (w/o inflation)	1.3	-0.5	0.0	1.2	1.8	1.3	1.0	1.0	-1.8	7.1	0.5	1.3	2.2
Consumer Price Inflation (CPI)	5.0	5.8	6.4	6.7	5.9	5.8	5.9	6.0	6.2	3.2	5.2	6.1	6.2
Gross National Product Inflation (GNP Deflator)	4.1	5.2	5.8	6.2	6.1	5.6	5.6	6.1	6.0	4.2	4.5	5.9	6.1
Personal Consumption Inflation	3.2	5.8	6.5	6.6	5.8	5.7	5.8	5.8	5.8	3.9	4.4	6.0	5.9
Residential Construction Inflation	0.9	5.1	7.2	8.2	7.4	7.3	7.1	7.1	2.8	2.3	3.4	7.3	7.6
Nonresidential Construction Inflation	-2.7	6.2	7.7	8.7	7.8	7.6	7.5	7.6	4.7	-0.7	2.1	7.8	7.8
Producers Price Inflation (WPI)	3.1	6.5	6.9	6.4	5.3	5.9	6.0	6.0	2.0	1.3	4.5	6.0	6.2
Compensation per Manhour (% change)	6.9	6.4	6.8	7.0	7.6	6.5	6.4	6.9	7.9	5.6	5.8	6.9	7.4
Productivity (% change)	1.5	2.2	2.0	1.3	1.1	1.2	1.7	1.6	0.0	3.1	2.0	1.4	1.8
Unit Labor Cost (% change)	5.1	4.2	4.8	5.7	6.5	5.2	4.7	5.2	7.9	2.4	3.7	5.4	5.6
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.5	4.6	4.7	4.8	9.5	6.9	4.7	4.7	5.0
Before Tax Corporate Profits ($ billions)<2>	246	254	262	268	271	270	266	263	190	217	257	267	278
Corporate Tax Liability	91	94	98	100	102	100	98	98	59	77	96	100	104
'Windfall Profits' Tax Receipts	8	9	9	9	9	9	9	9	16	10	8	9	9
After Tax Profits	146	151	156	159	161	161	160	156	115	131	153	159	166
Inventory Valuation Adjustment	-10	-22	-30	-30	-27	-29	-31	-32	-8	-9	-23	-30	-35
Capital Consumption Adjustment	50	56	61	65	71	73	76	79	-1	31	58	75	80
Profits from Current Production (with IVA, CCA)	187	185	187	194	204	205	205	203	106	152	188	204	211
Adjusted for Inflation (83:1 base)	180	176	175	179	186	184	182	177	109	150	178	182	177
Percent Change - Year Ago	49.5	25.0	9.2	0.7	3.4	4.6	3.6	-1.1	-8.9	38.0	18.5	2.6	-2.8
Per Unit of Output (% of GNP)	5.3	5.1	5.0	5.1	5.3	5.2	5.1	5.0	3.4	4.6	5.1	5.1	4.9
Effective Corporate Tax Rate (%)<2>	33	34	35	34	34	33	33	33	37	34	34	33	33
Federal Tax Receipts (Unified basis)	593	786	692	651	654	844	756	701	609	613	680	739	827
Percent of GNP	16.7	21.7	18.6	17.1	16.9	21.3	18.8	17.1	19.8	18.5	18.5	18.5	19.1
Federal Expenditures (Unified basis)	851	871	831	907	939	956	951	994	740	803	865	960	1,051
Percent of GNP	24.0	24.0	22.4	23.9	24.2	24.2	23.7	24.3	24.1	24.3	23.6	24.1	24.3
Surplus or Deficit (Unified basis)	-259	-85	-139	-256	-285	-113	-195	-293	-131	-190	-185	-221	-224
% of GNP	7.3	2.3	3.8	6.7	7.3	2.9	4.8	7.2	4.2	5.8	5.0	5.6	5.2
% of Personal Savings	168.7	57.9	94.6	165.6	165.7	65.3	112.5	169.0	106.1	164.3	121.7	128.1	129.8
% of Net Domestic Savings	80.8	27.1	44.4	79.0	81.5	32.4	56.2	85.7	68.0	78.5	57.8	63.9	65.1

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 6

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,093	2,937	2,783	2,708	2,616	2,502	2,422	1,948	2,719	2,939	2,562	2,704
Percent Change - Year Ago	14.5	11.2	6.0	0.9	-8.0	-15.4	-14.8	-13.0	-17.2	39.6	8.1	-12.8	5.6
Dollar Volume (billions)	250.2	267.4	257.5	238.8	237.1	234.5	228.0	216.0	156.5	224.5	253.5	228.9	254.1
Existing Home Prices - Median ($1000's)	71.8	73.7	75.3	74.0	75.9	77.9	79.4	77.9	67.7	69.8	73.7	77.8	82.3
Percent Change - Year Ago	5.0	5.6	5.9	5.7	5.6	5.7	5.5	5.2	2.3	3.2	5.6	5.5	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	643	674	694	692	724	763	792	768	754	633	675	762	752
Percent of Household Income	21	22	22	22	22	23	24	23	28	22	22	23	21
NAR Affordability Index	86.8	86.1	83.7	86.1	85.1	83.5	82.3	85.3	68.3	82.3	85.7	84.1	86.8
New Single-Family Home Sales (thousands)	681	690	680	670	630	590	550	510	417	626	680	570	630
Percent Change - Year Ago	13.8	6.5	15.8	-0.3	-7.5	-14.5	-19.1	-23.9	-4.3	50.1	8.6	-16.2	10.5
New Home Prices - Median ($1000's)	78.3	79.6	81.2	83.0	84.7	86.4	88.1	89.8	69.3	75.5	80.5	87.2	94.7
Percent Change - Year Ago	6.9	6.1	4.5	9.4	8.1	8.6	8.5	8.2	0.7	8.9	6.7	8.3	8.6
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.8	93.6	95.0	97.0	98.7	100.6	101.8	87.8	89.7	92.8	99.5	107.1
Percent Change - Year Ago	1.9	3.5	3.2	5.3	6.9	7.5	7.5	7.2	2.8	2.1	3.5	7.3	7.6
New Mortgage Commitments ($ billions)	187.6	164.8	159.7	162.9	163.9	165.3	166.8	172.8	64.8	163.4	168.8	167.2	192.5
Percent Change - Year Ago	30.6	7.0	-16.8	-0.7	-12.6	0.3	4.4	6.1	8.1	152.1	3.3	-0.9	15.1
Mortgage Debt Outstanding ($ billions)	1,877	1,933	1,991	2,050	2,112	2,174	2,240	2,308	1,628	1,749	1,963	2,209	2,152
Homeowners' Equity ($ billions)	2,722	2,772	2,810	2,890	2,960	3,034	3,109	3,183	2,396	2,580	2,798	3,072	3,384
Housing Inventory (millions)	92.8	93.2	93.6	94.1	94.4	94.8	95.1	95.5	90.6	91.8	93.4	95.0	96.3
Private Housing Starts (thousands)	1,950	1,857	1,802	1,692	1,554	1,502	1,473	1,487	1,056	1,704	1,825	1,504	1,634
Single-Family	1,258	1,213	1,170	1,079	979	935	918	929	663	1,066	1,180	940	1,056
Percent of Total	64.5	65.3	64.9	63.8	63.0	62.2	62.3	62.5	62.8	62.6	64.6	62.5	64.6
Multi-Family	692	644	632	613	575	567	556	558	394	637	645	564	578
Percent of Total	35.5	34.7	35.1	36.2	37.0	37.8	37.7	37.5	37.2	37.4	35.4	37.5	35.4
Mobile Home Shipments (thousands)	307	312	303	307	305	309	305	304	240	296	307	306	314
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.4	44.0	44.5	45.9	47.5	49.3	51.2	52.1	65.2	43.1	44.7	50.0	51.4
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	62.8	17.1	8.0	8.0	4.2	3.4	1.6	-0.5	9.0	-2.8	22.6	5.3	5.2
New Industrial Building Construction (% Ch Value)	98.2	19.4	26.6	38.7	30.2	20.4	9.6	13.2	2.5	-24.0	16.5	24.7	16.7
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	8.5	6.7	5.3	5.7	5.4	5.7	6.9	6.6	11.0	7.5	5.9	6.2
M1 Velocity (% change)	5.0	1.3	3.1	4.0	2.9	2.1	1.5	0.3	-2.4	-3.0	3.1	2.5	2.1
M2 (% change)(FED Target 6-9%)	7.0	9.4	9.1	8.1	6.8	6.4	8.1	8.7	9.5	12.6	8.4	7.7	8.1
M2 Velocity (% change)	5.5	0.4	0.9	1.2	1.9	1.2	-0.8	-1.4	-5.0	-4.4	2.3	0.9	0.3
Monetary Base (% change)	7.0	7.1	7.1	6.9	6.3	6.8	7.8	6.8	6.9	9.5	7.5	6.9	6.5
Flow of Funds													
Supply (total)	395	395	406	423	451	452	451	447	209	285	405	450	448
Personal Savings	153	146	147	154	172	173	173	173	125	114	150	173	173
Savings Rate	6.1	5.7	5.6	5.8	6.3	6.2	6.1	6.0	5.8	4.9	5.8	6.2	5.7
Net Business Savings	108	104	104	108	117	115	113	109	37	79	106	114	112
State + Local Govt. Savings	58	62	63	61	61	61	61	60	31	51	61	60	59
Foreign Funds(current account deficit)	75	83	92	99	101	103	104	106	15	41	87	104	104
Demand (total)	461	223	306	432	480	310	375	448	163	317	355	403	360
Consumer Installment Debt(net change)	59	49	40	36	35	36	37	38	13	42	46	37	42
Commercial+Industrial Loans(net change)	34	6	45	65	83	87	63	32	23	-2	38	66	3
Home Mortgage Debt(net change)	109	84	81	74	76	74	80	85	-4	86	87	79	91
Federal Deficit	259	85	139	256	285	113	195	293	131	190	185	221	224
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.2	13.5	13.6	13.8	14.1	14.5	14.8	14.6	16.6	13.3	13.5	14.5	13.5
30 Year,Fixed-Rate	13.9	14.2	14.3	14.5	14.8	15.2	15.5	15.3	17.3	14.0	14.2	15.2	14.2
1 Year ARM (without buy-down)	12.2	12.9	12.8	13.1	13.4	13.8	14.0	13.7	14.3	11.6	12.8	13.7	12.6
Real Mortgage Rate (weighted average)	9.1	8.3	7.8	7.6	8.0	8.9	9.1	8.5	12.2	9.3	8.2	8.6	7.1
Corporate Bond Rate (AAA)	12.3	12.9	13.0	13.2	13.4	13.7	14.0	14.0	13.8	12.0	12.8	13.8	13.1
Government Bond Rate	12.1	12.4	12.5	12.6	12.8	13.2	13.4	13.3	12.9	11.3	12.4	13.2	12.1
Real Long-term Government Bond Rate	8.0	7.2	6.8	6.4	6.7	7.6	7.8	7.1	8.6	7.3	7.1	7.3	5.7
Federal Funds Rate	9.7	10.3	10.3	10.6	10.7	11.2	11.6	11.3	12.3	9.1	10.2	11.2	10.1
3 Month Treasury Bill Rate	9.2	9.9	9.8	10.0	10.4	10.8	11.1	10.8	10.6	8.6	9.7	10.8	9.8
Real 3 Month T-Bill Rate	5.1	4.7	4.1	3.9	4.3	5.3	5.4	4.7	6.2	4.5	4.4	4.9	3.4
1 Year Treasury Bill Rate	10.2	10.9	10.8	11.1	11.4	11.8	12.0	11.7	12.3	9.6	10.8	11.7	10.6
Commercial Paper Rate	9.4	10.2	10.1	10.4	10.5	11.0	11.4	11.1	11.9	8.9	10.0	11.0	9.8
Rate on Money Market Fund Shares	9.6	10.4	10.3	10.6	10.7	11.3	11.6	11.3	12.1	9.0	10.2	11.2	9.9
Prime Rate	11.1	12.0	12.2	12.4	12.7	13.0	13.3	13.0	14.9	10.8	11.9	13.0	11.6

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

Real or inflation-adjusted Gross National Product (GNP) is likely to increase at an annualized rate of 4 percent during the second quarter of 1984. This reflects one-half of the unusual growth rate of the first quarter. The indexes of leading and coincident indicators rose just 0.5 percent in April, significantly lower than the increases of January and Febuary. At the same time, the index of lagging indicators, which acts as a precursor of slower economic growth, rose by 1.7 percent. Consequently, payroll employment in May rose more modestly and the average workweek declined.

One of the few industries as yet unaffected by this slowdown is the automobile industry. In May the seasonally-adjusted annual rate of new car sales reached 11 million with domestic sales at 8.6 million, the highest level since January 1980.

Growth of real GNP should continue to decline through the remainder of 1984, falling to 3 percent during the third quarter and about 2-1/2 percent during the fourth quarter. For 1985 a growth recession is anticipated, meaning that overall economic growth, expected to be about 2 percent for the year, slows to the point that the unemployment rate rises. A mild recession is also likely during 1985, with the level of economic activity declining for at least two quarters. In 1986 there should be some improvement with real GNP increasing 2-1/2 to 3 percent.

The unemployment rate fell to 7.5 percent in May after holding at 7.8 percent for the previous three months. Further large declines in the unemployment rate are not anticipated due to the slowing of employment growth as the recovery slows.

Inflation continues to accelerate as the manufacturing capacity utilization approaches 83 percent and less efficient capacity is used. The Consumer Price Index (CPI) rose at an annualized rate of 6.2 percent in April compared to 2.4 percent in the previous month. The average increase in the CPI over the April through June period should be about 6 percent, up from 5 percent from January through March. Further acceleration in price increases is expected during the remainder of this year. By the fourth quarter the CPI could be rising at an annualized rate of more than 6-1/2 percent. Inflation is expected to average about six percent during the slow growth period of 1985 and then begin accelerating again in 1986.

Interest rates continue to rise as growing private credit demands clash with federal government demands for credit. The deficit should total about $180 billion for 1984, absorbing nearly 60 percent of net domestic savings. Even with the "deficit downpayment" now being negotiated, the deficit should rise to $220 billion for 1985 and 1986. In May the average rate on 30 year Treasury bonds averaged about 13.25 percent, up 50 to 60 basis points over April. In late March the FED voted to tighten the growth of money and credit, pushing the federal funds rate from 9.9 percent to 10.3 percent for April and May. The federal funds rate continues to rise, fueling speculation that the FED further tightened in late May despite uncertainty in the commercial banking system. Interest rates are likely to continue on their upward trend, with the federal funds rate at about 11-1/2 percent and 30 year Treasury bonds approaching 14 percent by the end of 1984.

Real Estate Markets

Resales rose slightly to a seasonally-adjusted annual rate of 3.07 million units in April. However, with commitment rates for fixed-rate mortgages over the 14 percent threshold, resale activity should start trending down. Resales should decline to the 2.7 million unit level by the end of 1984 and average 2.5 million units for all of 1985. Similarly, housing starts should trend down over the remainder of the year, averaging 1.8 million units for 1984 and then decline to the 1.5 million unit level for 1985.

After a shallow downturn in 1983, the value of new commercial buildings put in place is expected to rise about 25 percent in 1984. However, the anticipated slowdown in commercial construction to correct for an oversupply of commercial space in some markets should begin during the second half of 1984 and last at least through 1986. Construction of new industrial buildings is enjoying a moderate recovery after a steep slump in 1983, but expected levels of construction do not meet the current need to replace obsolete manufacturing capacity.

Table 1

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,542	3,622	3,702	3,781	3,854	3,920	3,987	4,068	3,073	3,310	3,662	3,957	4,310
Percent Change	12.8	9.4	9.1	8.8	8.0	7.1	7.0	8.4	4.0	7.7	10.6	8.1	8.9
Percent Change (without inflation)	8.8	4.0	3.2	2.5	1.9	1.5	1.3	2.1	-1.9	3.4	6.0	2.2	2.6
Consumption	6.9	2.8	2.4	1.8	1.7	2.2	2.2	2.3	1.4	4.2	4.7	2.1	2.3
Durables	22.7	5.2	-0.5	-0.6	0.0	2.0	2.0	2.8	-0.9	11.8	12.2	0.9	2.8
Nondurables	5.3	2.1	2.0	1.5	1.6	1.9	2.0	1.9	0.5	3.3	3.8	1.8	1.9
Services	3.2	2.5	3.8	2.9	2.3	2.5	2.4	2.4	2.9	2.7	3.1	2.7	2.4
Residential Investment	25.8	14.0	-3.6	-6.0	-12.5	-12.0	-7.8	-0.5	-15.3	39.4	14.0	-7.3	4.4
Nonresidential Investment	14.7	11.4	7.4	4.6	3.8	3.1	4.3	5.1	-4.7	1.4	14.7	4.9	5.1
Structures	21.6	12.0	6.1	2.6	1.7	0.9	2.6	3.4	1.8	-6.9	9.9	3.1	3.6
Equipment	12.0	11.3	7.9	5.5	4.7	3.9	5.0	5.7	-7.5	5.3	16.6	5.6	5.7
Exports	7.3	8.3	5.4	5.5	5.1	5.6	5.5	5.2	-7.8	-5.8	5.8	5.6	5.0
Imports	54.0	10.1	8.6	7.1	4.8	5.1	5.1	4.9	1.4	7.2	25.0	6.1	4.7
Government Purchases	-2.2	18.9	3.6	3.1	-1.3	3.1	3.1	2.2	1.8	0.5	3.1	2.9	2.6
Consumption (% of GNP)	65.4	65.2	65.0	64.9	64.9	65.0	65.2	65.2	65.3	65.9	65.1	65.1	64.9
Residential Investment (% of GNP)	3.7	3.8	3.7	3.6	3.5	3.4	3.3	3.3	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.6	11.8	12.0	12.0	12.1	12.1	12.2	12.3	11.2	11.0	11.9	12.2	12.5
Inventory Change ($ billions)	69.3	46.2	52.7	59.4	70.9	67.6	58.7	55.9	-24.6	-6.5	56.9	63.3	62.5
Mfg. Capacity Utilization Rate (%)	81	83	83	83	83	82	82	82	71	75	82	82	82
Auto Sales (millions of units)	10.6	10.6	10.4	10.3	10.2	10.1	10.2	10.2	8.0	9.2	10.5	10.2	10.2
Domestic (% of total)	78.0	78.6	75.1	74.8	76.5	76.4	74.6	73.7	72.3	73.8	76.6	75.3	73.6
Imported (% of total)	22.0	21.4	24.9	25.2	23.5	23.6	25.4	26.3	27.9	26.1	23.4	24.7	26.4
Manufacturing Industrial Production (% change)	12.6	11.4	7.1	0.6	0.4	0.3	0.9	2.1	-8.5	7.8	12.0	2.0	2.9
Common Market	4.7	2.8	3.0	3.7	1.5	1.5	1.0	1.8	-1.4	0.7	3.8	2.1	2.0
Japan	14.0	4.3	2.0	2.2	5.7	2.7	2.3	0.9	0.4	3.5	8.5	3.2	2.9
Employment(millions)(civilian:household basis)	103.7	104.8	105.5	106.2	106.7	107.1	107.4	107.7	99.5	100.8	105.1	107.2	108.8
Unemployment Rate (%) (civilian)	7.9	7.6	7.5	7.5	7.6	7.7	7.8	7.9	9.7	9.6	7.6	7.7	8.0
Personal Income per Household (average)<1>	37,599	38,361	39,096	39,847	40,520	41,221	41,869	42,635	33,633	35,433	38,726	41,561	44,858
Percent Change -- Year Ago (w/o inflation)	5.1	5.0	5.0	3.5	1.6	1.4	1.2	1.2	-0.8	1.3	4.7	1.3	1.8
Personal Taxes per Household (average)	6,772	6,926	7,068	7,213	7,334	7,484	7,619	7,788	6,426	6,513	6,995	7,556	8,476
Percent Change -- Year Ago (w/o inflation)	1.5	1.0	4.9	4.1	2.4	2.1	1.9	2.0	-2.3	-2.7	2.9	2.1	5.7
Percent of Personal Income	18.8	18.8	18.9	18.9	18.9	19.0	19.0	19.1	19.9	19.2	18.9	19.0	19.7
Disposable Income per Household (average)	30,824	31,435	32,029	32,634	33,186	33,737	34,251	34,848	27,206	28,920	31,730	34,005	36,381
Percent Change--Year Ago (w/o inflation)	6.0	6.0	5.0	3.5	1.6	1.3	1.1	1.1	-0.4	2.3	5.1	1.3	0.9
Household Interest Payments (% of total)	10.3	10.7	10.3	10.2	10.2	10.3	10.6	10.6	9.6	9.8	10.4	10.4	10.2
Net Worth per Household (average)	75,533	76,802	78,221	79,540	80,681	81,880	83,405	85,143	66,453	74,134	77,524	82,777	90,081
Percent Change -- Year Ago (w/o inflation)	1.3	-0.8	-0.4	0.6	1.0	0.7	0.8	1.2	-1.8	7.1	0.2	0.9	2.5
Consumer Price Inflation (CPI)	5.0	5.9	6.5	6.6	5.8	5.6	5.8	6.1	6.2	3.2	5.2	6.0	6.2
Gross National Product Inflation (GNP Deflator)	3.7	5.2	5.7	6.2	6.0	5.5	5.6	6.2	6.0	4.2	4.4	5.8	6.1
Personal Consumption Inflation	3.6	5.5	6.0	6.5	5.7	5.5	5.6	5.9	5.8	3.9	4.4	5.8	6.0
Residential Construction Inflation	0.7	4.2	6.2	7.7	7.1	7.0	6.9	7.4	2.8	2.3	3.0	6.9	8.0
Nonresidential Construction Inflation	-1.5	4.5	6.9	8.6	7.5	7.3	7.4	7.8	4.7	-0.7	2.0	7.4	8.3
Producers Price Inflation (WPI)	3.0	3.9	6.2	6.2	4.9	5.6	5.9	6.3	2.0	1.3	3.9	5.6	6.5
Compensation per Manhour (% change)	5.9	6.8	6.9	7.3	7.4	6.4	6.5	7.2	7.9	5.5	5.7	6.9	7.5
Productivity (% change)	2.3	1.0	1.7	1.2	1.0	1.1	1.5	1.5	0.0	3.1	2.3	1.2	1.7
Unit Labor Cost (% change)	3.6	5.8	5.0	6.0	6.3	5.2	4.9	5.5	7.9	2.3	3.3	5.6	5.7
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.5	4.5	4.6	4.7	9.5	6.9	4.7	4.6	4.8
Before Tax Corporate Profits ($ billions)<2>	248	255	261	262	263	260	255	257	190	217	257	259	279
Corporate Tax Liability	92	95	97	98	98	96	93	97	59	77	96	96	106
'Windfall Profits' Tax Receipts	8	8	8	8	8	8	8	8	16	10	8	8	8
After Tax Profits	149	153	156	157	157	156	154	152	115	131	153	155	165
Inventory Valuation Adjustment	-13	-19	-27	-31	-29	-30	-33	-35	-8	-9	-22	-32	-41
Capital Consumption Adjustment	50	55	59	63	70	72	75	78	-1	31	57	74	78
Profits from Current Production (with IVA, CCA)	185	188	187	189	198	198	196	195	106	152	188	197	202
Adjusted for Inflation (84:1 base)	185	186	183	181	187	184	181	177	113	155	184	182	176
Percent Change - Year Ago	48.6	27.2	9.6	-1.7	0.9	-0.8	-0.9	-2.3	-8.9	38.0	18.2	-0.8	-3.2
Per Unit of Output (% of GNP)	5.2	5.2	5.1	5.0	5.1	5.0	4.9	4.8	3.4	4.6	5.1	5.0	4.7
Effective Corporate Tax Rate (%)<2>	34	34	35	34	33	33	33	33	37	34	34	33	35
Federal Tax Receipts (Unified basis)	620	779	683	640	645	833	745	694	609	613	680	729	818
Percent of GNP	17.5	21.5	18.5	16.9	16.7	21.3	18.7	17.0	19.8	18.5	18.6	18.4	19.0
Federal Expenditures (Unified basis)	837	873	831	908	929	947	941	983	740	803	862	950	1,039
Percent of GNP	23.6	24.1	22.5	24.0	24.1	24.1	23.6	24.2	24.1	24.3	23.5	24.0	24.1
Surplus or Deficit (Unified basis)	-218	-94	-148	-267	-284	-114	-196	-289	-131	-190	-182	-221	-221
% of GNP	6.1	2.6	4.0	7.1	7.4	2.9	4.9	7.1	4.2	5.8	5.0	5.6	5.1
% of Personal Savings	148.9	61.4	93.9	162.9	166.0	64.8	112.1	161.7	106.1	164.3	116.8	126.2	121.5
% of Net Domestic Savings	69.3	29.1	45.7	81.5	83.5	33.2	58.2	85.6	68.0	78.5	56.4	65.1	63.8

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 2

JUNE 1984

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,030	2,897	2,700	2,625	2,500	2,450	2,350	1,948	2,719	2,893	2,481	2,713
Percent Change - Year Ago	14.5	9.0	4.6	-2.1	-10.8	-17.5	-15.4	-13.0	-17.2	39.6	6.4	-14.2	9.3
Dollar Volume (billions)	250.2	256.2	249.8	226.4	225.0	219.6	217.2	205.0	156.5	224.5	245.7	216.7	248.1
Existing Home Prices - Median ($1000's)	71.8	73.6	75.2	74.0	75.8	77.8	79.5	78.0	67.7	69.8	73.7	77.8	82.4
Percent Change - Year Ago	5.0	5.5	5.8	5.6	5.5	5.7	5.7	5.5	2.3	3.2	5.5	5.6	6.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	642	693	717	712	734	759	789	769	754	633	691	763	772
Percent of Household Income	21	23	23	22	23	23	24	23	28	22	22	23	22
NAR Affordability Index	86.8	85.0	79.8	81.8	80.0	78.5	77.2	80.5	68.3	82.3	83.3	79.0	82.4
New Single-Family Home Sales (thousands)	681	650	630	600	570	550	530	510	417	626	640	540	589
Percent Change - Year Ago	13.8	0.3	7.3	-10.7	-16.4	-15.3	-15.8	-15.0	-4.3	50.1	2.2	-15.6	9.1
New Home Prices - Median ($1000's)	78.0	79.0	80.4	82.1	83.7	85.3	86.9	88.7	69.3	75.5	79.8	86.1	93.9
Percent Change - Year Ago	6.4	5.3	3.5	8.1	7.3	8.0	8.2	8.1	0.7	8.9	5.8	7.9	9.0
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.5	93.1	94.4	96.4	97.9	99.8	101.1	87.8	89.7	92.4	98.8	106.7
Percent Change - Year Ago	1.9	3.2	2.6	4.7	6.3	7.0	7.2	7.1	2.8	2.1	3.1	6.9	7.9
New Mortgage Commitments ($ billions)	184.6	170.5	160.4	154.8	151.6	149.1	152.1	159.6	64.8	163.4	167.6	153.1	174.7
Percent Change - Year Ago	28.6	10.7	-16.4	-5.7	-17.8	-12.6	-5.2	3.1	8.1	152.1	2.6	-8.6	14.1
Mortgage Debt Outstanding ($ billions)	1,871	1,925	1,980	2,034	2,089	2,145	2,206	2,270	1,629	1,752	1,952	2,178	2,106
Homeowners' Equity ($ billions)	2,712	2,757	2,783	2,850	2,912	2,980	3,052	3,125	2,396	2,580	2,776	3,018	3,336
Housing Inventory (millions)	92.8	93.2	93.6	94.0	94.4	94.7	95.1	95.4	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,962	1,837	1,745	1,505	1,524	1,481	1,481	1,500	1,056	1,704	1,762	1,496	1,657
Single-Family	1,277	1,127	1,092	953	960	937	934	939	663	1,066	1,112	942	1,052
Percent of Total	65.1	61.4	62.6	63.3	63.0	63.2	63.0	62.6	62.8	62.6	63.1	63.0	63.5
Multi-Family	685	710	653	552	563	545	548	560	394	637	550	554	606
Percent of Total	34.9	38.6	37.4	36.7	37.0	36.8	37.0	37.4	37.2	37.4	36.9	37.0	36.5
Mobile Home Shipments (thousands)	298	290	280	275	269	267	265	268	240	296	286	267	286
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.3	43.4	44.0	45.2	46.6	48.0	49.2	49.6	65.2	43.0	44.2	48.4	50.1
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	60.9	41.8	3.1	4.2	-0.8	-0.2	2.6	5.7	9.0	-2.8	26.0	3.8	9.0
New Industrial Building Construction (% Ch Value)	68.7	38.3	28.0	36.9	28.1	18.5	7.2	11.5	2.5	-24.0	15.2	24.2	14.9
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	5.7	6.1	4.7	6.7	5.1	5.9	7.3	6.6	11.0	6.8	5.8	6.4
M1 Velocity (% change)	5.1	3.5	2.8	3.9	1.2	1.9	1.0	1.0	-2.4	-3.0	3.5	2.1	2.3
M2 (% change)(FED Target 6-9%)	7.0	8.5	8.1	6.8	6.2	5.8	8.8	9.7	9.5	12.6	8.0	7.2	8.0
M2 Velocity (% change)	5.4	0.9	0.9	1.9	1.6	1.2	-1.7	-1.1	-5.0	-4.4	2.4	0.9	0.8
Monetary Base (% change)	8.7	6.4	6.5	6.3	5.7	6.8	6.9	7.2	6.9	9.5	7.7	6.4	7.1
Flow of Funds													
Supply (total)	399	412	419	429	441	445	442	447	209	285	415	444	464
Personal Savings	146	153	158	164	171	175	175	179	125	114	155	175	182
Savings Rate	5.8	6.0	6.0	6.1	6.3	6.3	6.2	6.2	5.8	4.9	6.0	6.3	6.0
Net Business Savings	107	107	104	104	110	108	105	102	37	79	105	106	104
State + Local Govt. Savings	61	62	62	60	59	59	57	57	31	51	61	58	60
Foreign Funds(current account deficit)	85	90	95	101	101	103	105	109	15	41	93	104	117
Demand (total)	406	237	302	411	448	292	351	416	168	315	339	377	352
Consumer Installment Debt(net change)	68	48	38	34	32	32	33	34	19	40	47	33	39
Commercial+Industrial Loans(net change)	34	17	43	50	72	91	56	18	23	-2	36	59	11
Home Mortgage Debt(net change)	86	78	73	60	59	54	66	75	-4	86	74	64	81
Federal Deficit	218	94	148	267	284	114	196	289	131	190	182	221	221
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.1	13.9	14.1	14.2	14.3	14.4	14.7	14.6	16.6	13.3	13.8	14.5	13.8
30 Year,Fixed-Rate	13.7	14.5	14.7	14.8	14.9	15.0	15.3	15.2	17.2	13.9	14.4	15.1	14.4
Real Mortgage Rate	10.0	9.3	9.0	8.7	8.9	9.5	9.7	9.0	12.8	9.9	9.2	9.3	8.1
1 Year ARM (without buy-down)	11.9	13.1	13.5	13.8	14.0	14.2	13.9	13.5	14.0	11.3	13.1	13.9	13.0
Corporate Bond Rate (AAA)	12.3	13.5	13.7	13.8	13.9	14.0	14.0	13.9	13.8	12.0	13.3	13.9	13.4
Government Bond Rate	12.1	13.4	13.6	13.7	13.7	13.8	13.5	13.0	12.9	11.3	13.2	13.5	12.3
Real Government Bond Rate	8.4	8.2	7.9	7.5	7.7	8.3	7.9	6.9	8.6	7.3	8.0	7.7	6.0
Federal Funds Rate	9.7	10.7	11.1	11.3	11.5	11.6	11.5	10.9	12.3	9.1	10.7	11.4	10.2
3 Month Treasury Bill Rate	9.2	10.1	10.5	10.8	11.0	11.2	10.9	10.5	10.6	8.6	10.1	10.9	10.1
Real 3 Month T-Bill Rate	5.5	4.9	4.8	4.6	5.0	5.7	5.3	4.3	6.2	4.5	4.9	5.1	3.8
1 Year Treasury Bill Rate	10.2	11.4	11.8	12.1	12.3	12.5	12.2	11.8	12.3	9.6	11.4	12.2	11.3
Commercial Paper Rate	9.4	10.5	10.9	11.2	11.3	11.5	11.6	11.1	11.9	8.9	10.5	11.4	10.3
Rate on Money Market Fund Shares	9.6	10.7	11.2	11.4	11.6	11.7	11.8	11.2	12.1	9.0	10.7	11.6	10.4
Prime Rate	11.1	12.5	12.9	13.2	13.3	13.4	13.4	13.2	14.9	10.8	12.4	13.3	12.2

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

While the economy continues to expand at a rapid pace, a trend toward slower growth due to high and rising interest rates is now evident. The U.S. Department of Commerce estimates that during the second quarter of this year real or inflation-adjusted Gross National Product (GNP) increased at an annualized rate of 5.7 percent, down from the revised 9.7 percent of the first quarter. Since it is based primarily on the level of economic activity in April, this "flash" estimate of second quarter GNP growth is likely to be revised downward to the 4 to 5 percent range. Growth of economic activity in May, as measured by indicators such as retail sales, industrial production, housing starts, and indexes of leading and coincident indicators, was lower than April. Preliminary indicators suggest that the slowing of growth of economic activity continued through June. Despite this slowing, for all of 1984 real GNP should increase by 6 to 6-1/2 percent, the highest growth rate for the U.S. economy since the mid-1960's.

Interest rates should continue to rise through mid- to late-1985, choking off activity in the interest-sensitive sectors of the economy and causing real GNP growth to continue to slow. The most likely scenario is for the economy to experience a "soft landing" in mid-1985 with real GNP growth rates of less than one percent during the second and third quarters. As economic growth comes to a virtual halt, private credit demands will subside and interest rates should fall. This will then set the stage for some improvement in economic activity in 1986. However, there is a risk that the economy will experience a "hard landing" in 1985, in which case interest rates would rise high enough to cause the economy to reenter recession (i.e., negative real growth for two consecutive quarters.)

Inflation has temporarily subsided due primarily to declining food prices. During the second quarter of this year the Consumer Price Index (CPI) rose at an annualized rate of 3.9 percent compared to 5.0 percent during the first quarter. Despite this slowdown, there are several indicators that suggest that inflation will gradually accelerate during the second half of 1984 and through 1986. Foremost among these indicators are current trends in wages and productivity. For example, from the first quarter of 1983 to the first quarter of 1984, labor compensation (which represents nearly two-thirds of GNP) rose 4.6 percent. However, this increase in wage costs was offset by a 3.9 percent increase in productivity. The resulting increase in unit labor costs was just 0.7 percent which contributed greatly to the low level of overall inflation over the period. Unfortunately, those favorable wage and productivity trends appear to be ending. As is typical of an economic expansion, the rate of productivity growth is slowing while the rate of increase of labor compensation is starting to increase. Consequently, the rate of increase of unit labor costs during the second half of 1984 should be nearly double the rate of increase during the first half of the year. Unit labor costs are expected to continue to accelerate through 1985 and 1986.

After 18 months of strong economic growth conditions in labor markets have improved dramatically. Since December 1982, when the unemployment rate peaked at 10.8 percent, total civilian employment has increased by nearly 6-1/2 million with the unemployment rate falling to 7.1 percent in June due to an unusually small increase in the labor force combined with the moderate growth in employment. Total civilian employment is expected to increase by another 1 to 1-1/2 million jobs over the next six months with the unemployment rate perhaps falling just under 7 percent by the end of the year. But with labor force growth remaining fairly strong and the recovery running out of steam, the unemployment rate is expected to rise through 1985 and into 1986.

The competition between public and private credit demands continues to intensify, pushing interest rates higher. A proven barometer of these tightening credit conditions is the federal funds rate or the interest rate on reserves held in the Federal Reserve System (FED) that commercial banks lend each other. As shown in Table 1 the federal funds rate has risen 1-1/2 percentage points (150 basis points) since January with half of that increase occurring in June. Other interest rates rose during June with the largest

increases occurring for intermediate maturity securities. For example, in June yields on 1 and 5 year Treasury securities rose 35 and 30 basis points, respectively, while yields on 3-month Treasury bills and 30-year Treasury bonds rose just 3 and 10 basis points, respectively. This pattern of interest rate movements suggests that investors have little confidence that the federal government will resolve the deficit crisis and so anticipate a significant resurgence of inflation over the next few years. The consensus appears to be that this problem will be most acute over the intermediate term. In the meantime, investors are showing a clear preference for very short term instruments.

Table 1

Selected Interest Rates

		Federal Funds	3-Month Treasury Bill	1-Year Treasury Bill	5-Year Treasury Securities	30-Year Treasury Securities
1984:	JAN	9.56	8.90	9.07	11.37	11.75
	FEB	9.59	9.09	9.20	11.54	11.95
	MAR	9.91	9.52	9.67	12.02	12.38
	APR	10.29	9.69	9.95	12.37	12.65
	MAY	10.35	9.83	10.58	13.18	13.33
	JUN	11.09	9.86	10.93	13.48	13.43

A contributory factor to the rise in interest rates has been the decision of the FED to further restrict the growth of money and credit at the end of March. At that time such a policy move was warranted since the economy was growing at an inflationary pace. Since then it appears that the FED has followed a policy of "passive restraint," doing nothing to offset increases in interest rates caused by market forces. With the economy noticeably slowing at current levels of interest rates our best guess is that the FED will vote to continue with its current policy when it meets to consider this issue in mid-July.

The combination of huge Treasury borrowing and strong private credit demands should lead to further increases in interest rates through mid-1985 even with no policy change by the FED. The yield on 3-month Treasury bills is likely to rise to about 11 percent in mid-1985 while the yield on 30-year Treasury securities could reach 14 percent by that time. This forecast takes into account the deficit down payment of roughly $60 billion over three years which the President has said will be signed into law. Even with this legislation the federal deficit is expected to total $220 billion in 1985 and about $225 billion in 1986.

Real Estate Markets

High and rising mortgage rates have dampened activity in housing markets in recent months. In May sales of existing single-family homes declined 1.3 percent to a seasonally-adjusted annual rate of 3.05 million units. Housing starts fell 10.5 percent to a seasonally-adjusted annual rate of 1,782,000 units in May while sales of new single-family homes sold declined 4 percent to a seasonally-adjusted annual rate of 612,000 units. The number of months supply of new single-family homes for sale at the current sales rate rose to 6.7, the highest level since September of 1982. Coincident with this decline in real estate activity, NAR's Housing Affordability Index slipped 0.6 percentage points to 87.2 from a revised level of 87.8 in April, the highest level since December 1979. The May index level means that a family with the national median income had 87.2 percent of the income needed to qualify for a mortgage on a median-priced resale home.

With mortgage rates expected to continue to rise over the next twelve to eighteen months, activity in housing markets is expected to continue to decline. By the end of

1984 resales should be down to a seasonally-adjusted annual rate of 2.6 to 2.7 million units, while housing starts decline to the 1.5 to 1.6 million unit range. For all of 1984 sales of existing single-family homes should total 2.4 to 2.5 million units while housing starts decline to the 1.4 to 1.5 million unit level. In 1986 activity in housing markets should improve as mortgage rates decline. The extension of the mortgage revenue bond program for another four years, which is part of the deficit-reduction tax bill awaiting the President's signature, should keep housing activity from declining more than it otherwise would.

Activity in nonresidential real estate has improved broadly during the first half of 1984. The value of new commercial buildings put in place is expected to increase about 44 percent during 1984 after falling by about 3 percent in 1983. This increase stems solely from increased construction of retail buildings (stores and warehouses) which follows very closely the cycle of residential construction. Construction of new office buildings is expected to decline in 1984 and continue to decline at least through 1986 to correct for an oversupply of office space in some market areas. Construction of industrial or manufacturing buildings is making a fairly strong turnaround in 1984 after a very steep decline during 1983. Overall, the value of new industrial buildings put in place should increase 10 to 12 percent this year and about 25 percent in 1985 as businesses expand and replace obsolete capacity.

The outlook for commercial, industrial, and rental residential construction would be more favorable had Congress not voted to extend the cost recovery period for depreciable real estate from 15 to 18 years. This change in tax law will double the tax burden on a typical commercial structure, resulting in a decline in the value of existing commercial, industrial, and rental residential structures of 5 percent or $135 billion. Further, investment in new structures should be about 5 percent per year less than what would have been the case, resulting in an annual loss of GNP of a little over $7 billion with a decline in total civilian employment of about 180,000.

Table 2

Annual Decline in Investment in Commercial, Industrial, and Rental Residential Structures Resulting from Extension of Cost Recovery Period from 15 to 18 Years

Commercial Structures	
Percent decline	4.2%
Dollar amount (84 $s)	$1.7 billion
Square footage (84 costs)	28 million
Industrial Structures	
Percent decline	4.0%
Dollar amount (84 $s)	$0.3 billion
Square footage (84 costs)	5 million
Rental Residential Structures	
Percent decline	5.9%
Dollar amount (84 $s)	$1.6 billion
Square footage (84 costs)	39 million
Rental units (84 costs)	41,000
Total	
Percent decline	4.8%
Dollar amount (84 $s)	$3.6 billion
Square footage (84 costs)	72 million
Loss of GNP (84 $s)	$7.2 billion
Loss of jobs	180,000

Table 3

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,550	3,625	3,694	3,758	3,823	3,877	3,932	4,003	3,073	3,310	3,657	3,909	4,257
Percent Change	13.9	8.7	7.9	7.1	7.1	5.8	5.8	7.4	4.0	7.7	10.5	6.9	8.9
Percent Change (without inflation)	9.7	5.7	3.0	2.0	1.5	0.6	0.4	1.2	-1.9	3.4	6.5	1.7	2.6
Consumption	6.4	7.1	3.3	2.8	1.7	0.3	0.7	1.2	1.4	4.2	5.6	2.0	1.9
Durables	23.2	15.9	0.1	3.6	0.7	-6.4	-3.7	-1.6	-0.9	11.8	14.7	0.0	1.1
Nondurables	5.1	8.6	3.4	2.1	1.6	1.5	1.3	1.5	0.5	3.3	5.2	2.3	1.9
Services	2.1	3.0	4.4	3.0	2.1	1.8	1.8	2.0	2.9	2.7	3.0	2.5	2.3
Residential Investment	26.7	16.0	-6.4	-11.1	-14.5	-12.1	-5.3	0.7	-15.3	39.4	13.8	-8.7	6.5
Nonresidential Investment	16.2	12.7	8.6	6.8	5.9	4.1	3.0	0.9	-4.7	1.4	15.6	5.8	2.6
Structures	24.4	11.8	7.9	5.9	4.9	1.8	1.2	0.1	1.8	-6.9	11.0	4.5	1.8
Equipment	13.0	13.1	8.9	7.2	6.2	5.0	3.7	1.2	-7.5	5.3	17.5	6.3	2.9
Exports	11.3	2.4	5.3	5.2	6.0	5.6	5.6	5.8	-7.8	-5.8	5.6	5.4	5.7
Imports	47.7	23.2	9.4	7.6	4.2	4.3	3.6	2.8	1.4	7.2	26.5	6.4	3.3
Government Purchases	-1.8	16.7	12.7	3.2	-5.3	3.0	2.5	2.0	1.8	0.5	4.0	2.7	2.7
Consumption (% of GNP)	65.1	65.4	65.4	65.5	65.6	65.5	65.5	65.6	65.3	65.9	65.4	65.5	65.1
Residential Investment (% of GNP)	3.7	3.8	3.7	3.6	3.4	3.3	3.2	3.2	2.5	3.4	3.7	3.3	3.4
Nonresidential Investment (% of GNP)	11.7	11.8	12.0	12.1	12.3	12.4	12.5	12.4	11.2	11.0	11.9	12.4	12.4
Structures (% of GNP)	3.3	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.2	3.4	3.5	3.4
Equipment (% of GNP)	8.3	8.5	8.6	8.7	8.8	8.9	9.0	9.0	7.6	7.7	8.5	8.9	8.9
Inventory Change ($ billions)	71.0	54.4	38.6	34.2	46.0	44.1	36.1	32.7	-24.6	-6.5	49.6	39.7	48.9
Mfg. Capacity Utilization Rate (%)	81	82	83	82	82	82	81	80	71	75	82	81	81
Auto Sales (millions of units)	10.6	10.7	10.5	10.5	10.4	10.1	9.9	9.6	8.0	9.2	10.6	10.0	9.8
Domestic (% of total)	78.0	77.9	74.1	74.4	76.0	75.5	73.2	71.9	72.3	73.8	76.1	74.2	72.5
Imported (% of total)	22.0	22.1	25.9	25.6	24.0	24.5	26.8	28.1	27.9	26.1	23.9	25.8	27.5
Manufacturing Industrial Production (% change)	12.1	9.7	6.5	1.6	2.8	0.0	-1.9	-0.3	-8.5	7.8	11.5	2.1	2.7
Common Market	3.6	3.6	3.4	2.0	1.5	2.1	4.0	1.6	-1.4	0.7	3.7	2.4	2.0
Japan	13.6	5.6	5.1	8.9	7.6	1.9	2.6	5.2	0.4	3.5	9.5	5.5	3.8
Employment(millions)(civilian:household basis)	103.7	105.1	105.9	106.6	107.1	107.4	107.6	107.9	99.5	100.8	105.3	107.5	108.9
Unemployment Rate (%) (civilian)	7.9	7.5	7.3	7.2	7.3	7.5	7.8	8.0	9.7	9.6	7.5	7.6	8.0
Personal Income per Household (average)<1>	37,607	38,163	38,857	39,427	39,943	40,564	41,176	41,901	33,633	35,433	38,514	40,896	44,307
Percent Change -- Year Ago (w/o inflation)	5.1	5.2	5.3	3.7	1.6	1.0	0.6	0.7	-0.8	1.3	4.8	1.0	2.2
Personal Taxes per Household (average)	6,771	6,890	7,007	7,116	7,202	7,327	7,450	7,607	6,426	6,513	6,946	7,396	8,343
Percent Change -- Year Ago (w/o inflation)	1.4	1.0	4.8	3.8	1.8	1.2	1.0	1.3	-2.3	-2.7	2.7	1.3	6.3
Percent of Personal Income	18.8	18.8	18.8	18.8	18.8	18.9	18.9	19.0	19.9	19.2	18.8	18.9	19.7
Disposable Income per Household (average)	30,835	31,274	31,850	32,311	32,741	33,238	33,727	34,294	27,206	28,920	31,568	33,500	35,964
Percent Change--Year Ago (w/o inflation)	6.0	6.1	5.4	3.8	1.6	1.1	0.6	0.6	-0.4	2.3	5.3	1.0	1.3
Household Interest Payments (% of total)	10.3	10.8	10.4	10.4	10.5	10.6	10.9	10.8	9.6	9.8	10.5	10.7	10.5
Net Worth per Household (average)	75,348	76,585	78,305	79,666	80,698	81,706	83,413	85,424	66,453	74,177	77,476	82,810	90,676
Percent Change -- Year Ago (w/o inflation)	1.0	-0.6	0.5	1.7	2.5	1.5	1.2	1.6	-1.8	7.1	0.6	1.7	3.2
Consumer Price Inflation (CPI)	5.0	3.9	5.4	5.5	5.5	5.3	5.5	6.0	6.2	3.2	4.6	5.4	6.2
Gross National Product Inflation (GNP Deflator)	3.8	2.8	4.7	5.0	5.5	5.1	5.4	6.2	6.0	4.2	3.8	5.1	6.1
Personal Consumption Inflation	3.8	2.6	4.9	5.1	5.3	5.2	5.4	5.8	5.8	3.9	3.7	5.1	5.9
Residential Construction Inflation	1.8	3.3	4.3	5.3	6.1	6.7	6.7	7.2	2.8	2.3	2.7	5.8	7.8
Nonresidential Construction Inflation	-2.1	3.5	6.2	6.8	7.8	7.7	8.0	8.3	4.7	-0.7	1.4	7.2	8.7
Producers Price Inflation (WPI)	3.0	2.5	5.1	5.3	4.1	4.6	5.7	6.3	2.0	1.3	3.5	4.8	6.5
Compensation per Manhour (% change)	5.9	3.7	5.9	6.2	7.6	6.6	6.7	7.2	7.9	5.5	4.9	6.6	7.5
Productivity (% change)	3.5	2.2	2.0	1.5	1.1	1.0	0.1	0.6	0.0	3.1	2.9	1.2	1.2
Unit Labor Cost (% change)	2.5	1.4	3.8	4.6	6.4	5.5	6.5	6.5	7.9	2.3	2.0	5.3	6.2
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.4	4.4	4.3	4.3	9.5	6.9	4.7	4.4	4.3
Before Tax Corporate Profits ($ billions)<2>	252	256	257	255	252	247	237	235	190	217	255	243	269
Corporate Tax Liability	93	94	94	93	91	88	82	84	59	77	94	86	100
'Windfall Profits' Tax Receipts	8	8	8	8	8	8	8	8	16	10	8	8	8
After Tax Profits	152	154	155	154	153	151	147	144	115	131	154	149	161
Inventory Valuation Adjustment	-13	-17	-25	-28	-26	-28	-32	-36	-8	-9	-21	-31	-42
Capital Consumption Adjustment	50	55	60	65	72	74	77	80	-1	31	57	76	80
Profits from Current Production (with IVA, CCA)	189	191	190	190	198	198	192	188	106	152	190	194	200
Adjusted for Inflation (84:1 base)	189	190	186	185	190	187	179	173	113	156	187	182	176
Percent Change - Year Ago	51.4	29.9	11.8	0.1	0.4	-1.7	-3.6	-6.3	-8.9	38.0	20.5	-2.8	-3.1
Per Unit of Output (% of GNP)	5.3	5.3	5.1	5.1	5.2	5.1	4.9	4.7	3.4	4.6	5.2	5.0	4.7
Effective Corporate Tax Rate (%)<2>	33	33	34	33	32	31	30	31	37	34	33	31	34
Federal Tax Receipts (Unified basis)	620	784	684	636	650	835	743	689	609	613	681	729	814
Percent of GNP	17.5	21.6	18.5	16.9	17.0	21.5	18.9	17.2	19.8	18.5	18.6	18.7	19.1
Federal Expenditures (Unified basis)	837	862	841	915	931	948	942	984	740	803	864	951	1,040
Percent of GNP	23.6	23.8	22.8	24.4	24.4	24.4	24.0	24.6	24.1	24.3	23.6	24.3	24.4
Surplus or Deficit (Unified basis)	-218	-78	-156	-279	-281	-113	-199	-295	-131	-190	-183	-222	-226
% of GNP	6.1	2.2	4.2	7.4	7.3	2.9	5.1	7.4	4.2	5.8	5.0	5.7	5.3
% of Personal Savings	146.8	58.7	114.3	209.4	213.9	78.8	131.3	184.5	106.1	164.3	132.3	152.1	133.0
% of Net Domestic Savings	68.1	25.4	51.1	92.9	92.9	36.6	64.6	95.5	68.0	78.5	59.4	72.4	68.4

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,032	2,852	2,654	2,605	2,500	2,403	2,301	1,948	2,719	2,870	2,452	2,752
Percent Change - Year Ago	14.5	9.1	3.0	-3.7	-11.5	-17.5	-15.8	-13.3	-17.2	39.6	5.6	-14.6	12.2
Dollar Volume (billions)	250.2	260.7	248.9	226.4	227.3	222.4	218.0	204.3	156.5	224.5	246.6	218.0	258.2
Existing Home Prices - Median ($1000's)	71.8	73.3	74.9	73.6	75.6	77.3	79.0	77.5	67.7	69.8	73.4	77.4	82.1
Percent Change - Year Ago	5.0	5.0	5.4	5.1	5.2	5.5	5.5	5.4	2.3	3.2	5.1	5.4	6.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	650	681	724	730	765	787	795	760	754	633	696	776	785
Percent of Household Income	22	22	23	23	24	24	24	23	28	22	23	24	22
NAR Affordability Index	86.8	86.1	81.2	80.4	77.9	76.7	76.5	80.3	68.3	82.3	83.6	77.9	82.8
New Single-Family Home Sales (thousands)	682	620	600	580	550	530	510	490	417	626	620	520	600
Percent Change - Year Ago	13.9	-4.3	2.2	-13.7	-19.3	-14.5	-14.9	-15.4	-4.3	50.1	-1.0	-16.1	15.4
New Home Prices - Median ($1000's)	77.9	80.5	81.4	82.4	83.7	85.0	86.4	88.0	69.3	75.5	80.5	85.8	92.5
Percent Change - Year Ago	6.3	7.3	4.8	8.6	7.4	5.6	6.2	6.7	0.7	8.9	6.7	6.5	7.9
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.5	92.7	93.4	95.0	96.6	98.4	99.7	87.8	89.7	92.1	97.4	105.0
Percent Change - Year Ago	1.9	3.2	2.2	3.5	4.7	5.6	6.1	6.7	2.8	2.1	2.7	5.8	7.8
New Mortgage Commitments ($ billions)	188.7	176.4	166.4	167.7	166.5	162.2	158.2	159.0	64.8	163.4	174.8	161.5	172.2
Percent Change - Year Ago	31.4	14.6	-13.3	2.2	-11.8	-8.1	-4.9	-5.2	8.1	152.1	7.0	-7.6	6.6
Mortgage Debt Outstanding ($ billions)	1,871	1,937	2,002	2,067	2,134	2,201	2,269	2,339	1,629	1,752	1,969	2,236	2,191
Homeowners' Equity ($ billions)	2,707	2,771	2,811	2,882	2,945	2,992	3,044	3,103	2,396	2,580	2,793	3,021	3,284
Housing Inventory (millions)	92.8	93.2	93.6	94.0	94.4	94.7	95.1	95.4	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,968	1,867	1,710	1,609	1,538	1,475	1,474	1,509	1,056	1,704	1,788	1,499	1,676
Single-Family	1,278	1,140	1,068	1,014	953	906	911	924	663	1,066	1,125	923	1,026
Percent of Total	65.0	61.1	62.4	63.0	61.9	61.4	61.8	61.2	62.8	62.6	62.9	61.6	61.2
Multi-Family	690	727	642	596	586	569	563	585	394	637	664	576	650
Percent of Total	35.0	38.9	37.6	37.0	38.1	38.6	38.2	38.8	37.2	37.4	37.1	38.4	38.8
Mobile Home Shipments (thousands)	298	293	278	280	284	281	275	281	240	296	287	280	310
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.3	52.2	57.2	60.5	61.7	60.7	59.4	57.5	65.2	43.0	53.5	59.8	55.3
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	67.6	151.5	10.3	8.5	6.8	4.1	3.0	4.7	9.0	-2.8	44.0	11.6	9.0
New Industrial Building Construction (% Ch Value)	82.4	0.7	31.5	38.4	33.2	23.2	8.4	7.4	2.5	-24.0	11.0	24.5	11.4
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	5.8	5.9	6.0	4.3	4.6	6.1	7.7	6.6	11.0	6.9	5.4	6.5
M1 Velocity (% change)	6.1	2.8	1.9	1.0	2.6	1.1	-0.3	-0.3	-2.4	-3.0	3.3	1.4	2.2
M2 (% change)(FED Target 6-9%)	7.1	8.3	7.4	6.9	5.6	5.0	8.7	9.3	9.5	12.6	7.9	6.7	8.4
M2 Velocity (% change)	6.3	0.3	0.5	0.2	1.4	0.7	-2.7	-1.7	-5.0	-4.4	2.4	0.1	0.4
Monetary Base (% change)	8.7	5.9	6.6	6.4	5.3	4.6	5.5	6.1	6.9	9.5	7.6	5.6	6.5
Flow of Funds													
Supply (total)	397	408	412	410	411	421	421	424	209	286	407	419	451
Personal Savings	148	133	137	133	131	144	151	160	125	114	138	147	171
Savings Rate	5.9	5.2	5.3	5.0	4.9	5.3	5.4	5.6	5.8	4.9	5.4	5.3	5.7
Net Business Savings	111	111	107	105	111	108	101	95	37	79	108	104	102
State + Local Govt. Savings	61	63	63	62	60	58	55	54	31	51	62	57	59
Foreign Funds(current account deficit)	78	101	105	110	108	111	113	115	15	42	98	112	120
Demand (total)	437	283	300	423	414	265	368	464	167	325	361	378	397
Consumer Installment Debt(net change)	68	57	46	44	43	38	34	33	19	40	54	37	38
Commercial+Industrial Loans(net change)	23	54	10	19	6	32	52	49	23	-2	26	35	34
Home Mortgage Debt(net change)	129	94	88	82	84	82	83	87	-5	96	98	84	99
Federal Deficit	218	78	156	279	281	113	199	295	131	190	183	222	226
Selected Interest Rates (Percent)													
Mortgage Interest Rates													
30 Year,Fixed-Rate	13.9	14.3	14.9	15.3	15.6	15.7	15.5	15.1	17.2	13.9	14.6	15.5	14.7
Real Mortgage Rate	10.1	11.5	10.2	10.3	10.1	10.6	10.1	8.9	12.8	9.9	10.5	9.9	8.4
1 Year ARM (without buy-down)	11.9	13.1	13.9	14.1	14.3	14.4	14.2	13.7	14.0	11.3	13.3	14.1	12.9
Real Mortgage Rate	8.0	10.3	9.2	9.1	8.8	9.3	8.8	7.5	9.6	7.2	9.2	8.6	6.6
Corporate Bond Rate (AAA)	12.3	13.2	13.8	13.9	14.0	14.1	14.0	13.5	13.8	12.0	13.3	13.9	12.7
Government Bond Rate	12.1	13.2	13.7	13.8	13.9	13.8	13.7	13.2	12.9	11.3	13.2	13.7	12.2
Real Government Bond Rate	8.2	10.3	9.0	8.8	8.4	8.7	8.3	7.0	8.6	7.3	9.1	8.1	5.8
Federal Funds Rate	9.7	10.5	11.4	11.5	11.7	12.0	11.8	11.0	12.3	9.1	10.8	11.6	10.1
3 Month Treasury Bill Rate	9.2	9.7	10.2	10.5	10.8	11.0	10.9	10.5	10.6	8.6	9.9	10.8	9.8
Real 3 Month T-Bill Rate	5.3	6.9	5.5	5.5	5.3	5.9	5.5	4.3	6.2	4.5	5.8	5.3	3.5
1 Year Treasury Bill Rate	10.2	11.4	12.2	12.4	12.6	12.7	12.5	12.0	12.3	9.6	11.6	12.4	11.2
Commercial Paper Rate	9.4	10.5	10.9	11.1	11.5	11.6	11.4	10.8	11.9	8.9	10.5	11.3	10.1
Rate on Money Market Fund Shares	9.6	10.7	11.2	11.3	11.7	11.8	11.6	11.0	12.1	9.0	10.7	11.5	10.2
Prime Rate	11.1	12.3	13.0	13.2	13.5	13.8	13.7	13.2	14.9	10.8	12.4	13.6	12.4

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

The economy continues to expand at a rapid rate although the dampening impacts of the sharp increase in interest rates that occured from February through July are beginning to be felt. Real or inflation-adjusted Gross National Product (GNP) increased at an annualized rate of 7.5 percent during the second quarter while the first quarter growth rate has been revised upward to 10.1 percent. It now looks as though real growth for all of 1984 will be about 7-1/2 percent which would be the highest annual real growth rate since 1951.

Growth of real GNP during the third quarter should slow to about 5-1/2 percent and then further decline to about 4 percent during the fourth quarter. Evidence of this slow-down of economic growth is the 0.9 percent drop in the Index of Leading Economic Indicators, the first decline in this index since August of 1982. Further, new orders for manufactured goods fell 1.4 percent in June with most of this decline occurring in the interest-sensitive durable goods sector.

Real economic growth should continue to slow through 1985 as interest rates trend upward due to the huge federal deficit and growing private credit demands. Growth of real GNP is likely to decline to about 1 percent during the second half of 1985 and average about 3 percent for the entire year. As the economy slows and private credit demands subside, interest rates should begin to fall in late 1985, setting the stage for an upturn in economic activity during 1986.

There is some confusion in the media over whether or not the current recovery has been led by consumption or investment. Table 1 presents the growth of the various components of GNP during the first six quarters of the current and three preceding recoveries and these same components as a percent of GNP over the same time intervals. Clearly, during the current recovery growth in investment, particularly residential investment, has been stronger than growth in consumption. Further, both residential and nonresidential investment have also expanded faster during the current recovery than the average of the three preceding recoveries. This rapid growth of investment is believed to be due to the Accelerated Cost Recovery System (ACRS) enacted in 1981 and the fact that the previous recession was so deep. This evidence has led several commentators to conclude that the current recovery has been led by investment.

However, the opposite conclusion is reached if the different components are considered as a percent of GNP. For example, even though the growth of consumption during the current recovery has been relatively low, the growth rate has been sufficient to boost consumption to nearly 65 percent of GNP compared to an average of about 63 percent for the preceeding three recoveries. In fact, the growth of consumption accounts for 52 percent of the increase in GNP during the current recovery.

On the other hand, fixed investment has risen only slightly as a share of GNP. All of this increase as a share of GNP is due to increased investment in equipment. A slight increase in investment in nonresidential structures has been exactly offset by a decline in residential investment. In total, fixed investment has contributed just 27 percent of the increase in GNP during the current recovery, about half the increase due to consumption. (The remainder of the increase in GNP is due to government purchases of goods and services and inventory investment.)

Table 1

Components of GNP	Percent Change First Six Months of Recovery: Current Recovery	Percent Change First Six Months of Recovery: Avg. of Three Preceeding Recoveries	Percent of GNP: Current Recovery	Percent of GNP: Avg. of Three Preceeding Recoveries
GNP	11.2	9.7	-	-
Personal Consumption Expenditures	9.0	8.8	64.9	62.9
Gross Fixed Private Domestic Investment	20.4	13.3	14.9	14.3
Residential	36.8	23.2	4.0	4.4
Nonresidential	15.5	9.5	10.9	9.8
Structure	6.5	5.7	4.0	3.6
Equipment	21.5	11.8	6.9	6.2
Gov't Purchases	6.3	7.7	20.7	21.4
Federal	4.7	7.1	8.2	9.3
State & Local	7.4	7.9	12.5	12.1
Imports	22.8	13.0	10.7	6.4
Exports	10.1	6.7	10.2	7.4

Note: Current Recovery 82:4 to 84:2;
Previous Recoveries 75:1 to 76:3, 70:4 to 72:2, 61:1 to 62:3;
80:2 to 81:3 expansion not shown due to its brevity.

Employment and Inflation

The unemployment rate rose to 7.5 percent in July, up from the June rate of 7.1 percent. However, this increase is most likely due to errors in seasonally adjusting the data. Overall labor market conditions continued to improve in July with total civilian employment 107,000 greater than in May. Employment increased in all industry categories with the strongest gains occurring in service industries. Growth of employment in the manufacturing sector has slowed substantially.

The jobless rate is expected to decline to about 7 percent by the end of 1984 and may decline as low as 6.5 percent by mid-1985. However, during the second half of 1985 and the first half of 1986 the economy is expected to grow too slowly to absorb all entrants into the labor force, causing the unemployment rate to rise.

The Consumer Price Index (CPI) rose at an annualized rate of 2.4 percent in June, the same as in May. For the entire second quarter the CPI rose at an annualized rate of 3.7 percent, down from 5.0 percent during the first quarter. This decline in inflation during the second quarter is due primarily to declines in food and energy prices.

Inflation should accelerate over the remainder of 1984 and through 1985 although the expected level of inflation over the forecast interval is now lower than was generally anticipated just a few months ago. Consumer price inflation should reach the 5 percent level by the end of this year and could reach the 6 percent level by the end of 1985. The primary factor behind this acceleration in inflation is that as labor markets tighten wage costs should accelerate while the rate of growth of productivity trends downward.

Fiscal Policy

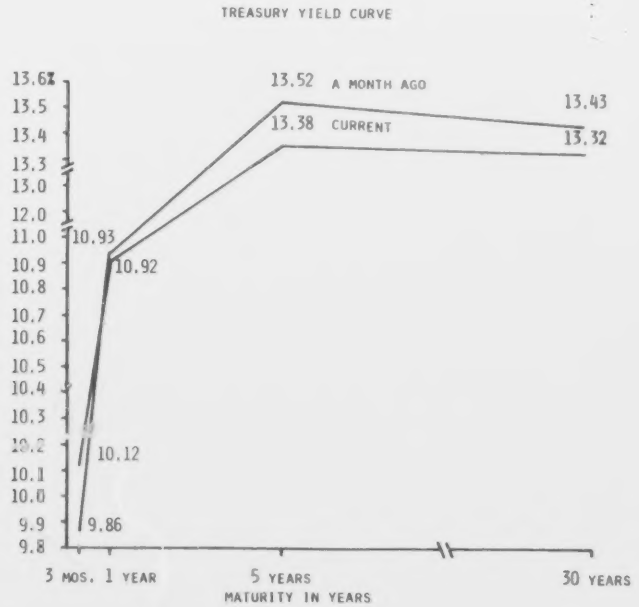
The Federal deficit for 1984 has been revised downward to $175 billion due to exceptionally strong growth of the economy. Although this is $20 billion less than last year's, the national debt, the cumulative effect of past deficits, is increasing rapidly. Publicly held federal debt is presently $1.2 trillion or 35.4 percent of GNP and is expected to reach $2.5 trillion in 1989 which is about 46 percent of GNP expected for that year. The 1984 deficit will absorb about 53 percent of net domestic saving, down from about 80 percent in 1983.

The first deficit down payment consisting of $50 billion in taxes and $11 billion of spending cuts has been passed by Congress and approved by the President. Despite these actions, the deficit should still increase to about $200 billion in 1985 and about $220 billion in 1986.

Monetary Policy and Interest Rates

Evidence of a slowing economy and lower than expected inflation have boosted confidence in bond markets over the past few weeks. Several market analysts have concluded that a fundamental downward revision in the markets inflation expectations has occurred. Adding to this optimism was the testimony of FED Chairman Volcker before the Senate Banking Committee in which he suggested that there would be no further active tightening of credit conditions by the FED this year. The result has been a greater willingness on the part of investors to buy longer-term debt issues. As shown in Diagram 1, yields for

Diagram 1



longer-term Treasury debt instruments have fallen in recent weeks while short term interest rates have risen. While interest rates in general may continue to decline modestly over the next several weeks, the long-term trend is still for rates to rise through mid- to late-1985 due to massive federal borrowing requirements and the increasing credit needs of an expanding private economy.

Real Estate Markets

Activity in the housing markets appears to have peaked for this recovery. In June sales of existing single-family homes rose a mere 0.6 percent after a 3-month decline. Total housing starts increased 5.3 percent in June due mainly to an increase of 32 percent in multifamily starts. Single-family starts, which make up 60 percent of the total, actually declined 7.2 percent in June. Inventories of unsold new homes reached 341,000, it's highest level since December of 1980. In accordance with the decline in single-family real estate activity, NAR's Housing Affordability Index slipped 1.5 percentage points to 85.6 percent. Mortgage rates are expected to continue to rise over the next twelve to eighteen months causing activity in housing markets to continue to decline. Resales should decline to a seasonally-adjusted annual rate of 2.6 to 2.7 million units by the end of the year, while housing starts are expected to decline to an annual rate of 1.5 to 1.6 million units. For all of 1984 existing single-family home sales should total 2.8 to 2.9 million units, then fall off to about 2.4 to 2.5 million units in 1985. Housing starts should total about 1.8 million units for all of 1984 before retreating to about 1.5 million units in 1985.

Activity in nonresidential real estate has improved broadly during the first half of 1984. The value of new commercial buildings put in place is expected to increase about 42 percent during 1984 after falling about 4 percent in 1983. This increase stems solely from increased construction of retail buildings (stores and warehouses) which follows very closely to the cycle of residential construction. Construction of new office buildings is expected to decline in 1984 and continue to decline through 1986 to correct for an oversupply of office space in some market areas. Construction of industrial or manufacturing buildings is making a fairly strong turnaround in 1984 after a very steep decline during 1983. Overall, the value of new industrial buildings put in place should increase about 30 percent this year and about 25 percent in 1985 as businesses expand and replace obsolete capacity.

Table 2

AUGUST 1984

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,646	3,733	3,810	3,886	3,950	4,010	4,075	4,153	3,069	3,305	3,686	3,980	4,296
Percent Change	10.9	9.9	8.4	8.2	6.8	6.2	6.7	7.8	3.8	7.7	11.5	8.0	7.9
Percent Change (without inflation)	7.5	5.4	3.9	3.0	2.1	1.2	0.8	2.1	-2.1	3.7	7.4	3.2	2.2
Consumption	6.9	4.9	4.7	4.0	1.9	1.2	0.9	1.3	1.3	4.8	5.7	3.5	2.1
Durables	9.3	4.8	8.8	8.1	-0.8	-2.4	-3.3	-0.7	-0.3	12.1	13.4	4.1	1.3
Nondurables	9.5	4.5	3.3	3.0	2.4	1.9	1.4	1.6	0.6	3.7	5.4	3.3	2.0
Services	3.9	5.3	4.4	3.4	2.5	2.1	2.1	1.9	2.5	3.4	3.4	3.4	2.4
Residential Investment	9.6	-7.7	-16.0	-16.1	-11.8	-4.2	0.9	11.2	-15.0	41.7	12.6	-10.4	7.4
Nonresidential Investment	20.7	14.5	9.9	8.1	5.2	3.0	1.5	1.2	-4.7	2.5	19.9	8.3	2.1
Structures	29.2	14.8	8.4	7.2	3.5	2.9	1.9	1.6	0.2	-7.8	18.2	7.9	2.4
Equipment	17.6	14.3	10.5	8.5	5.9	3.1	1.4	1.0	-6.8	7.3	20.6	8.4	2.0
Exports	11.2	4.2	5.7	5.3	5.2	4.9	5.1	5.6	-7.8	-5.6	6.9	5.5	5.8
Imports	15.4	11.4	12.3	9.4	9.3	6.5	5.1	4.0	1.3	7.6	26.7	9.8	4.8
Government Purchases	19.1	7.8	3.1	-1.2	2.8	2.6	2.3	2.7	2.0	-0.3	3.7	3.3	2.4
Consumption (% of GNP)	64.7	64.6	64.8	64.9	64.9	64.9	64.9	64.8	65.1	65.8	64.7	64.9	64.8
Residential Investment (% of GNP)	3.8	3.7	3.5	3.3	3.2	3.1	3.1	3.2	2.6	3.5	3.7	3.2	3.3
Nonresidential Investment (% of GNP)	12.4	12.6	12.8	12.9	13.0	13.1	13.1	13.1	11.3	11.1	12.4	13.1	13.0
Structures (% of GNP)	3.5	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.6	3.2	3.5	3.7	3.7
Equipment (% of GNP)	8.8	9.0	9.2	9.3	9.4	9.4	9.4	9.4	7.7	7.9	8.9	9.4	9.3
Inventory Change ($ billions)	53.8	52.4	56.4	64.2	70.1	69.5	66.3	69.4	-26.1	-13.5	59.1	67.5	67.4
Mfg. Capacity Utilization Rate (%)	82	82	83	83	82	82	81	81	71	75	82	82	82
Auto Sales (millions of units)	10.7	10.5	10.8	10.9	10.7	10.6	10.3	10.3	8.0	9.2	10.7	10.6	10.5
Domestic (% of total)	78.0	74.0	74.2	76.1	74.8	73.1	71.8	72.0	72.3	73.8	76.0	73.9	72.1
Imported (% of total)	22.0	26.0	25.8	23.9	25.2	26.9	28.2	28.0	27.9	26.1	24.0	26.1	27.9
Manufacturing Industrial Production (% change)	8.2	6.1	5.4	5.0	1.3	-0.1	-0.3	3.0	-8.5	7.8	11.4	3.7	3.0
Common Market	7.6	3.5	2.0	1.6	2.3	4.4	2.1	1.8	-1.4	0.7	3.9	2.6	2.4
Japan	5.6	5.1	9.0	7.7	2.2	3.1	5.8	5.2	0.4	3.5	9.8	5.7	4.1
Employment(millions)(civilian:household basis)	105.1	106.5	107.5	108.2	108.7	109.0	109.1	109.3	99.5	100.8	105.7	108.7	109.9
Unemployment Rate (%) (civilian)	7.5	6.9	6.6	6.6	6.6	6.8	7.0	7.1	9.7	9.6	7.2	6.7	7.2
Personal Income per Household (average)<1>	38,274	39,265	39,958	40,576	41,169	41,856	42,570	43,452	33,698	35,461	38,761	41,583	44,724
Percent Change -- Year Ago (w/o inflation)	5.7	6.9	5.6	4.1	3.0	1.7	1.4	1.6	-0.5	1.5	5.8	2.5	1.9
Personal Taxes per Household (average)	6,864	7,088	7,243	7,366	7,488	7,636	7,800	8,129	6,443	6,486	6,985	7,573	8,438
Percent Change -- Year Ago (w/o inflation)	0.7	6.7	6.2	4.8	4.3	2.8	2.4	4.8	-2.1	-3.0	3.7	3.6	5.6
Percent of Personal Income	18.7	18.8	18.9	19.0	19.0	19.1	19.1	19.6	19.9	19.1	18.8	19.0	19.7
Disposable Income per Household (average)	31,410	32,178	32,715	33,211	33,680	34,220	34,769	35,323	27,256	28,975	31,776	33,970	36,286
Percent Change--Year Ago (w/o inflation)	6.8	6.7	5.4	3.9	2.7	1.6	1.2	1.0	-0.1	2.5	6.2	2.3	1.2
Household Interest Payments (% of total)	10.7	10.3	10.3	10.3	10.4	10.7	10.6	10.4	9.6	9.8	10.4	10.5	10.2
Net Worth per Household (average)	75,968	76,371	77,938	79,500	80,915	82,099	84,068	86,470	66,444	74,178	76,404	81,645	90,555
Percent Change -- Year Ago (w/o inflation)	-1.6	-2.2	-0.5	1.3	1.8	2.6	2.6	3.3	-1.8	7.6	-0.8	2.1	5.1
Consumer Price Inflation (CPI)	3.7	4.3	5.0	5.0	4.9	5.2	5.8	6.1	6.2	3.2	4.4	4.9	5.8
Gross National Product Inflation (GNP Deflator)	3.2	4.3	4.4	5.0	4.7	5.0	5.9	5.6	6.0	3.8	3.9	4.7	5.6
Personal Consumption Inflation	2.2	3.8	4.5	4.6	4.7	5.1	5.7	5.8	5.9	3.7	3.3	4.5	5.6
Residential Construction Inflation	5.3	5.5	5.2	5.0	5.9	6.1	6.8	7.5	3.0	1.7	3.2	5.5	7.3
Nonresidential Construction Inflation	1.4	4.3	5.9	7.0	7.3	7.7	8.5	8.4	4.9	-1.0	0.8	6.3	8.5
Producers Price Inflation (WPI)	2.3	2.4	4.2	3.5	4.3	5.4	6.3	6.1	2.0	1.3	3.0	4.0	6.4
Compensation per Manhour (% change)	3.4	4.6	5.2	6.8	5.9	6.1	6.7	7.7	7.9	5.5	4.6	5.8	7.0
Productivity (% change)	2.3	1.9	1.6	1.4	1.3	0.6	0.4	1.1	0.0	3.1	2.9	1.4	1.0
Unit Labor Cost (% change)	1.0	2.6	3.6	5.3	4.5	5.5	6.3	6.6	7.9	2.3	1.7	4.3	5.9
Unit Capital Cost (% change)	4.7	4.6	4.7	4.7	4.8	4.7	4.7	4.7	9.5	6.9	4.7	4.7	4.6
Before Tax Corporate Profits ($ billions)<2>	261	272	272	266	263	257	250	262	181	213	264	259	271
Corporate Tax Liability	104	111	113	111	109	105	101	110	76	86	107	107	114
After Tax Profits	156	162	159	155	154	151	148	152	105	127	157	152	158
Inventory Valuation Adjustment	-8	-13	-17	-19	-22	-27	-31	-33	-9	-11	-13	-25	-39
Capital Consumption Adjustment	53	57	62	70	74	77	81	81	3	33	55	76	82
Profits from Current Production (with IVA, CCA)	201	205	204	206	206	202	198	201	98	149	199	203	201
Adjusted for Inflation (84:1 base)	200	202	198	198	196	189	183	183	105	153	196	191	179
Percent Change - Year Ago	36.7	23.2	11.5	7.3	-2.0	-6.3	-7.4	-7.7	-14.6	46.0	28.2	-2.3	-6.4
Per Unit of Output (% of GNP)	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.8	3.2	4.5	5.4	5.1	4.7
Effective Corporate Tax Rate (%)<2>	33	34	34	34	33	33	32	34	39	34	34	33	35
Federal Tax Receipts (Unified basis)	784	678	638	656	842	753	695	683	609	613	680	737	799
Percent of GNP	21.5	18.2	16.8	16.9	21.3	18.8	17.1	16.4	19.8	18.6	18.5	18.5	18.6
Federal Expenditures (Unified basis)	862	827	898	922	936	929	970	995	740	803	856	939	1,016
Percent of GNP	23.6	22.2	23.6	23.7	23.7	23.2	23.8	24.0	24.1	24.3	23.2	23.6	23.7
Surplus or Deficit (Unified basis)	-78	-149	-260	-266	-94	-176	-275	-312	-131	-190	-176	-203	-217
% of GNP	2.1	4.0	6.8	6.8	2.4	4.4	6.7	7.5	4.2	5.8	4.8	5.1	5.1
% of Personal Savings	50.7	87.7	158.7	168.9	58.7	102.5	151.8	166.3	97.8	158.1	110.0	120.5	117.0
% of Net Domestic Savings	23.7	42.5	76.0	78.8	28.0	51.8	80.5	89.4	67.3	80.0	52.9	59.8	62.4

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 3

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	3,047	2,850	2,646	2,594	2,495	2,400	2,299	2,499	1,948	2,719	2,871	2,447	2,775
Percent Change - Year Ago	9.6	2.9	-4.0	-11.8	-18.1	-15.8	-13.1	-3.7	-17.2	39.6	5.6	-14.8	13.4
Dollar Volume (billions)	264.7	251.2	227.3	224.6	220.8	217.7	203.0	224.3	156.5	224.5	248.2	216.5	258.3
Existing Home Prices - Median ($1000's)	73.3	75.0	73.6	74.6	76.6	78.8	76.9	78.3	67.7	69.8	73.4	76.7	81.3
Percent Change - Year Ago	5.0	5.5	5.1	3.9	4.6	5.1	4.5	5.0	2.3	3.2	5.1	4.5	6.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	684	740	735	755	775	792	763	767	754	633	700	771	763
Percent of Household Income	22	24	23	23	24	24	22	22	28	22	23	23	21
NAR Affordability Index	86.8	80.6	80.0	78.6	77.0	76.3	79.1	79.6	68.3	82.3	83.6	77.8	80.5
New Single-Family Home Sales (thousands)	627	600	580	540	520	500	480	520	417	626	625	510	595
Percent Change - Year Ago	-3.2	2.1	-13.6	-21.9	-17.0	-16.7	-17.3	-3.7	-4.3	50.1	-0.2	-18.3	16.7
New Home Prices - Median ($1000's)	80.5	81.5	82.6	83.7	85.0	86.4	88.0	89.7	69.3	75.5	80.7	85.8	92.5
Percent Change - Year Ago	7.3	4.9	8.9	7.4	5.6	6.0	6.5	7.1	0.7	8.9	6.9	6.4	7.8
New Home Prices--Mean ($1000's, Quality Adjusted)	92.2	93.3	94.2	95.7	97.2	98.5	99.9	102.0	87.8	89.7	92.7	97.8	105.0
Percent Change - Year Ago	3.9	2.9	4.4	5.2	5.4	5.6	6.1	6.6	2.8	2.1	3.4	5.6	7.3
New Mortgage Commitments ($ billions)	176.2	170.8	170.0	164.7	160.2	154.4	152.1	163.9	64.8	163.4	173.1	157.8	178.7
Percent Change - Year Ago	14.4	-11.0	3.6	-6.0	-9.1	-9.6	-10.5	-0.5	8.1	152.1	5.9	-8.8	13.2
Mortgage Debt Outstanding ($ billions)	1,966	2,025	2,086	2,150	2,213	2,277	2,342	2,251	1,629	1,752	1,987	2,245	2,184
Homeowners' Equity ($ billions)	2,769	2,812	2,885	2,947	2,993	3,043	3,099	3,163	2,396	2,580	2,794	3,020	3,278
Housing Inventory (millions)	93.2	93.6	94.0	94.4	94.7	95.0	95.4	95.7	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,907	1,689	1,563	1,534	1,454	1,461	1,528	1,593	1,056	1,704	1,782	1,494	1,683
Single-Family	1,138	1,032	951	930	877	890	937	985	663	1,066	1,100	908	1,047
Percent of Total	59.7	61.1	60.8	60.6	60.3	60.9	61.3	61.8	62.8	62.6	61.6	60.8	62.2
Multi-Family	768	657	612	604	577	571	591	608	394	637	682	586	636
Percent of Total	40.3	38.9	39.2	39.4	39.7	39.1	38.7	38.2	37.2	37.4	38.4	39.2	37.8
Mobile Home Shipments (thousands)	293	282	273	282	286	285	286	295	240	296	286	285	319
Rental Vacancy Rate (%)	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	54.5	59.6	61.8	61.9	59.9	57.9	56.7	55.2	65.2	43.0	54.9	59.1	54.7
Office Vacancy Rate (%)<1>	13.5	11.5	11.1	10.7	10.4	10.1	9.9	9.7	8.0	11.7	12.3	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.7	4.4	4.2	4.0	3.9	3.8	3.8	3.7	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	89.3	39.2	9.6	8.4	7.4	7.0	9.7	10.1	9.0	-4.2	42.2	15.2	10.7
New Industrial Building Construction (% Ch Value)	44.7	153.0	14.5	17.3	18.6	9.2	9.3	14.2	2.5	-25.7	30.9	27.4	11.8
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	6.2	4.8	6.0	4.6	4.9	5.9	7.2	5.9	6.6	11.0	6.8	5.4	6.3
M1 Velocity (% change)	4.4	4.9	2.3	3.5	1.8	0.3	-0.5	1.9	-2.6	-3.1	4.4	2.5	1.5
M2 (% change)(FED Target 6-9%)	7.0	7.8	7.1	5.7	5.1	8.0	8.3	7.8	9.5	12.6	7.7	6.6	7.8
M2 Velocity (% change)	3.7	1.9	1.3	2.4	1.7	-1.7	-1.4	0.1	-5.3	-4.4	3.5	1.3	0.1
Monetary Base (% change)	6.0	4.8	7.8	7.0	5.8	5.8	6.0	5.8	6.9	9.5	7.5	6.4	6.6
Flow of Funds													
Supply (total)	413	435	434	431	437	446	455	468	212	280	418	442	476
Personal Savings	154	170	164	157	160	171	181	188	136	118	160	166	186
Savings Rate	6.0	6.5	6.1	5.8	5.8	6.1	6.3	6.4	6.2	5.0	6.2	6.0	6.2
Net Business Savings	121	123	119	119	117	110	104	105	29	76	118	113	102
State + Local Govt. Savings	54	58	59	61	59	58	56	57	33	44	56	58	60
Foreign Funds(current account deficit)	84	84	92	93	101	107	114	119	13	42	84	104	127
Demand (total)	262	358	451	454	247	321	409	461	167	325	377	358	369
Consumer Installment Debt(net change)	57	60	46	38	22	20	18	19	19	40	58	24	30
Commercial+Industrial Loans(net change)	50	54	56	61	49	47	38	43	23	-2	46	49	28
Home Mortgage Debt(net change)	77	95	89	89	82	78	78	87	-5	96	97	82	93
Federal Deficit	78	149	260	266	94	176	275	312	131	190	176	203	217
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.4	14.9	15.1	15.3	15.3	15.2	15.0	14.8	17.2	13.9	14.5	15.2	14.2
Real Mortgage Rate	11.2	10.6	10.7	10.3	10.6	10.2	9.1	9.2	12.9	10.2	10.5	10.1	8.3
1 Year ARM (without buy-down)	13.2	13.6	13.8	14.1	14.3	14.6	14.4	13.5	14.0	11.3	13.1	14.3	13.0
Real Mortgage Rate	10.1	9.3	9.4	9.1	9.6	9.6	8.5	7.9	9.7	7.5	9.1	9.2	7.2
Corporate Bond Rate (AAA)	13.2	13.8	13.9	14.0	14.1	14.1	13.9	13.7	13.8	12.0	13.3	14.0	12.9
Government Bond Rate	13.2	13.3	13.4	13.5	13.6	13.5	13.3	12.8	12.9	11.3	13.0	13.5	12.1
Real Government Bond Rate	10.0	9.0	9.0	8.5	8.9	8.5	7.4	7.2	8.7	7.6	8.9	8.4	6.3
Federal Funds Rate	10.6	11.5	11.6	12.0	12.2	12.4	12.2	11.3	12.3	9.1	10.8	12.2	10.5
3 Month Treasury Bill Rate	9.8	10.2	10.5	10.8	11.0	11.2	11.0	10.1	10.6	8.6	9.9	11.0	9.7
Real 3 Month T-Bill Rate	6.6	5.9	6.1	5.8	6.3	6.2	5.1	4.5	6.4	4.8	5.9	5.9	3.9
1 Year Treasury Bill Rate	11.5	11.9	12.1	12.4	12.6	12.9	12.7	11.8	12.3	9.6	11.4	12.7	11.3
Commercial Paper Rate	10.6	11.3	11.5	11.9	12.1	12.6	12.3	11.3	11.9	8.9	10.7	12.2	10.8
Rate on Money Market Fund Shares	10.8	11.5	11.7	12.1	12.3	12.8	12.5	11.5	12.1	9.0	10.9	12.5	10.9
Prime Rate	12.3	13.1	13.3	13.8	14.0	14.2	14.0	13.4	14.9	10.8	12.4	14.0	12.8

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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Outlook For The Economy and Real Estate

Aggregate Economy

After very rapid economic growth in the first two quarters of 1984, there are now definite signs that the sharp increases in interest rates that occurred from February through June are slowing the pace of the recovery. In July the index of leading economic indicators fell 0.8 percent, the second consecutive monthly decline. Most of the July decline was due to a decrease in building permits reflecting a slowing in the interest sensitive housing sector. Retail sales fell 0.9 percent in July following three months of increases. In August, the seasonally-adjusted level of employment in non-farm establishments rose by 160,000 compared to an average increase of about 350,000 during the first six months of this year.

After increasing at an annualized rate of 10.1 percent in the first quarter and 7.5 percent in the second quarter of 1984, real Gross National Product (GNP) is likely to rise 5 to 5-1/2 percent during the third quarter and about 3 percent in the fourth quarter. As interest rates remain at high levels through mid-1985, growth of overall economic activity should continue to slow. In fact, there is a serious risk that continued high interest rates over the next twelve months could trigger a mild recession during the second half of 1985.

This forecast assumes either no strike by the UAW or a strike lasting no more than two weeks. A strike in the automobile industry lasting more than two weeks would substantially reduce the fourth quarter growth rate. However, some of this lost output would then be made up during the first and second quarters of 1985.

Employment and Inflation

The civilian unemployment rate held at 7.5 percent in August, the same as in July, amid conflicting movements in the two major employment series. Based on a survey of households, the seasonally-adjusted level of employment fell by 426,000 during the month with a roughly equal decline in the labor force. Based on the more reliable survey of non-farm business establishments, the seasonally-adjusted level of employment rose by 159,000 in August. It appears that conditions in labor markets continue to improve but that the rate of improvement is modest compared to the first six months of this year. The unemployment rate is likely to decline over the remaining months of this year, falling to a low of about 7 percent. However, as the overall rate of economic growth continues to slow through 1985 the unemployment rate should begin rising again.

Inflation remains at relatively low levels although there have been recent indicators that the rate of inflation may be accelerating. In July the Consumer Price Index (CPI) rose at a seasonally-adjusted annual rate of 3.5 percent, up from June's annual rate of 2.0 percent. Also in July the Producer Price Index rose at a seasonally-adjusted annual rate of 3.7 percent after having registered no change in the preceeding three months.

As the level of capacity utilization continues to rise while labor markets tighten, the outlook is for a gradually accelerating rate of inflation. Compared to the annualized rate of 3.7 percent during the second quarter, the CPI should increase at an annualized rate of about 4-1/2 percent by the fourth quarter of this year. As the economy slows during 1985 the inflation rate should stabilize but then resume its upward trend during 1986 as economic growth picks up again.

In recent weeks there has been some discussion in the media about the possibility that the economy may experience a period of deflation, where prices actually fall, as opposed to disinflation where the rate of inflation slows. The cause of this deflation would be a sudden and severe downturn of the economy prompted by the tight monetary policies of the Federal Reserve Board (FED). As evidence, proponents of this possibility point to a 10.8 percent May through July decline in a Dow Jones index of 13 commodity prices.

However, it should be noted that this index covers only twelve commodities, seven of which are agricultural. Agricultural commodity prices have fluctuated a great deal in the past year or so due to extreme weather conditions around the world and the higher value of the U.S. dollar. Moreover, prices of some agricultural commodities are currently falling since developing countries are flooding markets with all types of commodities in order to generate foreign exchange earnings with which to meet interest payments on loans from the industrialized countries. Indeed, a different index of prices of thirty-nine nonfood, nonenergy commodities published by the U.S. Department of Labor as part of the Producer Price Index has fallen only 0.4 percent over the May through July period and has risen about 18 percent since the beginning of the current recovery. In conclusion, commodity prices have been and will continue to be volatile. Short-run fluctuations in narrow indices of commodity prices are unreliable as predictors of future trends. At this time the possibility of the economy entering a period of deflation is remote.

Monetary Policy and Interest Rates

Short-term interest rates continued to edge upward during August while continued confidence in bond markets brought long-term rates down. The federal funds rate, the interest rate banks charge each other for loans of reserves at the FED, averaged 11.64 percent in August compared to 11.23 percent in July. Similarly, the rate on 3-month Treasury bills rose from 10.12 percent in July to 10.47 percent in August. In contrast, the interest rate on 30-year Treasury bonds fell 67 basis points to average 12.54 percent for all of August.

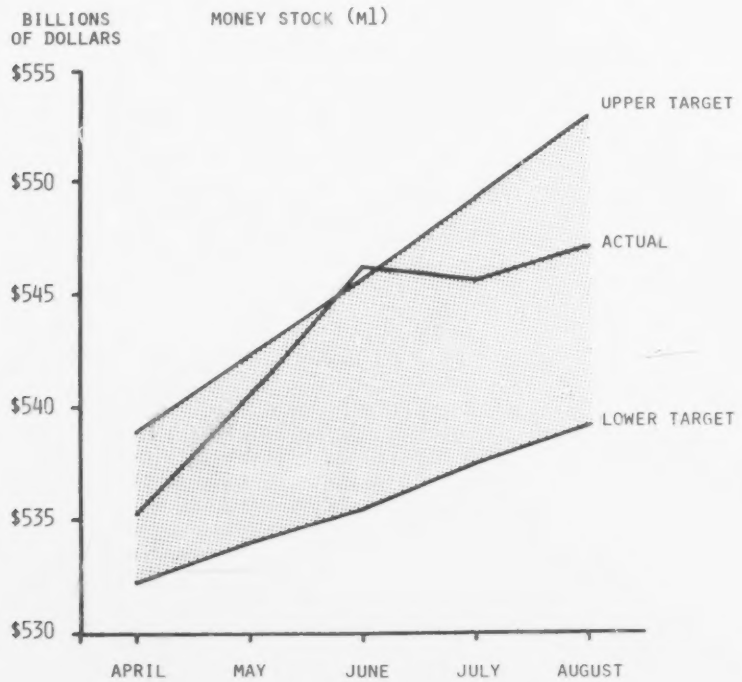
Table 1

Selected Interest Rates

Month		3-Month Treasury Bill	1-Year Treasury Bill	30-Year Treasury Bonds	Aaa Corporate Bonds	Fixed Rate Mortgage	Adjustable Rate Mortgage
1984:	JAN	8.90	9.90	11.751	12.20	13.85	12.00
	FEB	9.09	10.04	11.95	12.08	13.69	11.85
	MAR	9.52	10.59	12.38	12.57	13.85	11.73
	APR	9.69	10.90	12.65	12.81	14.12	11.90
	MAY	9.83	11.66	13.43	13.28	14.35	12.04
	JUN	9.87	12.08	13.44	13.55	14.97	12.56
	JUL	10.12	12.03	13.21	13.44	15.23	12.94
	AUG	10.47	11.82	12.54	12.87	15.01	12.90

After growing very rapidly during the second quarter, the growth rate of M1 has subsided and it is now well below the FED's upper target range (see Diagram 1). The rapid growth during the spring was due to a sharp increase in consumer and business loans which were quickly converted to checkable deposits. However, increases in short-term interest rates and the slowing of the economy have dampened demand for loans during the past two months, causing a slowing of M1 growth. Both M2 and M3, which are broader definitions of the money supply, are also well below the FED's upper target range at this time.

Diagram 1



Apparently prompted by the slowing growth of both M1 and the economy, there is recent evidence that the FED is attempting to prevent further increases in the federal funds rate for the time being by actively supplying reserves to the banking system. This should stem further increases in short-term rates and may cause both short- and long-term interest rates to decline somewhat over the next few weeks. Indeed, both shortand long-term interest rates have declined somewhat during the first half of September. Our best guess is that the FED has decided to stabilize interest rates temporarily in order to get a better reading on how the economy is performing. Also, the FED is particularly sensitive about interest rate increases during this presidential campaign season. While the FED clearly does not want the economy to overheat, it does not want the economy to overcool either. However, given the FED's goal of keeping money growth within its stated target ranges, the FED will be unable to prevent a further runup of interest rates later this year and through 1985 due to increasing private credit demands and the federal government's need to finance the deficit and the rapidly growing net debt.

Real Estate Markets

Activity in housing markets continued to decline in July due to increases in mortgage interest rates over the period from March through July of this year. Sales of existing homes declined 6.1 percent from June to July to a seasonally-adjusted annual rate of 2.78 million units, the lowest level since November of 1983. The July decline was the third consecutive monthly drop after home resale activity reached an annual pace of 3.09 million units in April. Total housing starts fell 6.6 percent from June to July to a seasonally-adjusted annual rate of 1.761 million units. Single-family starts fell 10.1 percent while multi-family starts fell 1.9 percent.

In August, effective commitment rates for fixed rate mortgage loans declined about one-quarter percentage point from the previous month to 15 percent while commitment rates on adjustable rate loans were essentially unchanged at 13 percent.

Both existing home sales and total housing starts are likely to trend downwards during the remainder of this year and through mid- to late-1985. For all of 1984 about 2.8 million existing single-family homes should change hands, falling to about 2.5 million units in 1985. Housing starts should total about 1.78 million units for 1984 and then decline to about 1.5 million units in 1985. Improvements in both existing home sales and housing starts should be forthcoming in 1986.

The various components of nonresidential construction continue to exhibit different trends. Construction of retail buildings, which increased strongly in 1983 due to strong growth of residential investment, should reach 400 million square feet in 1984 and stay at that level in 1985. Construction of new industrial buildings is expected to surge by 30 percent to 140 million square feet this year and then increase another 10 percent in 1985. Due to the oversupply of office space in some sections of the country, construction of new office space is expected to decline 2 percent to 275 million square feet for 1984 and then fall 27 percent to 200 million square feet in 1985.

Table 2

Commercial and Industrial Building Contracts

	Retail Buildings		Office Buildings		Industrial Buildings	
	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
Year						
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	- 9%
1984[f]	400	+10%	275	- 2%	140	+31%
1985[f]	400	0%	200	-27%	154	10%

Source: DRI Review of the Economy, August 1984

Table 3

SEPTEMBER 1984

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,648	3,728	3,794	3,857	3,909	3,950	3,995	4,056	3,069	3,305	3,681	3,928	4,175
Percent Change	11.1	9.1	7.3	6.8	5.5	4.3	4.6	6.2	3.8	7.7	11.4	6.7	6.3
Percent Change (without inflation)	7.6	5.3	3.0	2.0	1.0	-0.1	-0.5	1.1	-2.1	3.7	7.3	2.3	1.2
Consumption	7.5	3.9	4.2	3.2	1.5	0.9	0.6	0.7	1.4	4.8	5.7	3.0	1.4
Durables	11.3	2.1	7.1	5.9	-2.1	-3.4	-3.7	-1.7	-0.3	12.1	13.3	2.6	-0.1
Nondurables	10.3	5.6	3.3	2.5	2.0	1.6	1.2	0.9	0.6	3.7	5.7	3.2	1.4
Services	3.9	3.3	3.9	2.9	2.4	1.9	1.7	1.5	2.5	4	3.1	2.9	1.9
Residential Investment	2.0	-8.3	-17.9	-17.0	-12.9	-2.1	3.1	11.6	-15.0	41.7	10.8	-11.3	7.5
Nonresidential Investment	22.8	13.8	9.2	7.8	5.1	3.0	1.2	0.9	-4.7	2.5	20.2	8.0	1.9
Structures	25.7	18.0	8.9	7.8	3.9	3.0	1.8	1.5	0.2	-7.8	18.0	8.4	2.2
Equipment	21.8	12.1	9.3	7.7	5.6	3.0	1.0	0.7	-6.8	7.3	21.0	7.9	1.8
Exports	5.9	6.4	5.9	5.6	5.5	4.7	4.4	4.6	-7.8	-5.6	6.2	5.8	5.1
Imports	7.2	13.0	10.9	8.8	9.3	6.0	4.7	3.9	1.3	7.6	25.1	9.1	4.7
Government Purchases	19.2	2.5	3.0	-0.8	2.6	2.7	2.2	1.5	2.0	-0.3	3.0	2.7	2.1
Consumption (% of GNP)	64.8	64.6	64.8	65.0	65.0	65.2	65.4	65.3	65.1	65.8	64.7	65.2	65.3
Residential Investment (% of GNP)	3.7	3.6	3.4	3.2	3.1	3.1	3.1	3.2	2.6	3.5	3.6	3.1	3.3
Nonresidential Investment (% of GNP)	12.4	12.6	12.8	13.0	13.1	13.2	13.3	13.3	11.3	11.1	12.5	13.2	13.3
Structures (% of GNP)	3.5	3.6	3.6	3.7	3.7	3.8	3.8	3.8	3.6	3.2	3.5	3.7	3.8
Equipment (% of GNP)	8.9	9.1	9.2	9.3	9.4	9.5	9.5	9.5	7.7	7.9	8.9	9.4	9.5
Inventory Change ($ billions)	48.5	62.0	60.9	61.9	59.7	46.7	31.6	30.0	-26.1	-13.5	61.3	50.0	29.6
Mfg. Capacity Utilization Rate (%)	82	83	83	83	82	81	80	80	71	75	82	82	80
Auto Sales (millions of units)	10.7	10.5	10.6	10.7	10.4	10.2	10.0	10.0	8.0	9.2	10.6	10.3	10.1
Domestic (% of total)	77.3	74.2	74.6	76.6	75.1	72.7	71.1	71.1	72.3	74.0	76.0	73.9	71.2
Imported (% of total)	22.7	25.8	25.4	23.4	24.9	27.3	28.9	28.9	27.9	26.0	24.0	26.1	28.8
Manufacturing Industrial Production (% change)	8.5	8.1	5.0	3.4	-0.5	-2.0	-1.7	1.3	-8.5	7.8	11.7	2.8	1.3
Common Market	-4.0	3.9	9.3	1.2	1.5	3.0	1.1	0.9	-1.4	0.2	3.4	2.9	1.6
Japan	11.1	5.0	8.8	7.4	1.7	2.6	5.2	4.6	0.4	3.5	10.8	5.7	3.6
Employment(millions)(civilian:household basis)	105.1	106.0	107.0	107.6	107.9	108.1	108.1	108.1	99.5	100.8	105.5	107.9	108.6
Unemployment Rate (%) (civilian)	7.5	7.3	7.1	7.1	7.2	7.5	7.8	8.1	9.7	9.6	7.4	7.4	8.3
Personal Income per Household (average)<1>	38,245	39,104	39,715	40,316	40,861	41,363	41,893	42,446	33,698	35,461	38,653	41,108	43,489
Percent Change -- Year Ago (w/o inflation)	5.7	6.7	5.4	3.9	2.7	1.3	0.9	0.5	-0.5	1.5	5.7	2.2	0.8
Personal Taxes per Household (average)	6,902	7,103	7,230	7,342	7,451	7,554	7,671	7,920	6,443	6,486	6,995	7,505	8,162
Percent Change -- Year Ago (w/o inflation)	1.2	7.1	6.3	4.8	3.6	1.8	1.3	2.9	-2.1	-3.0	3.9	2.9	3.6
Percent of Personal Income	18.8	19.0	19.0	19.0	19.1	19.1	19.1	19.5	19.9	19.1	18.9	19.1	19.6
Disposable Income per Household (average)	31,341	32,001	32,485	32,974	33,410	33,809	34,221	34,526	27,256	28,975	31,657	33,604	35,327
Percent Change--Year Ago (w/o inflation)	6.6	6.4	5.1	3.6	2.6	1.3	0.8	0.0	-0.1	2.5	6.0	2.1	0.2
Household Interest Payments (% of total)	10.7	10.3	10.3	10.3	10.4	10.7	10.7	10.5	9.6	9.8	10.4	10.5	10.3
Net Worth per Household (average)	75,972	77,124	78,969	80,521	81,915	83,489	85,337	87,466	66,444	74,178	76,851	82,816	91,186
Percent Change -- Year Ago (w/o inflation)	-1.6	-1.1	1.1	2.9	3.4	3.6	3.2	3.7	-1.8	7.5	-0.2	3.3	4.9
Consumer Price Inflation (CPI)	3.7	3.9	4.6	4.7	4.9	4.7	5.0	5.4	6.2	3.2	4.3	4.6	5.2
Gross National Product Inflation (GNP Deflator)	3.2	3.6	4.1	4.7	4.5	4.5	5.1	5.1	6.0	3.8	3.8	4.3	5.0
Personal Consumption Inflation	2.0	3.0	4.0	4.2	4.6	4.5	4.7	5.1	5.9	3.7	3.1	4.0	4.9
Residential Construction Inflation	11.1	5.4	5.1	4.9	5.1	5.2	5.7	6.4	3.0	1.7	4.3	5.5	6.2
Nonresidential Construction Inflation	1.8	2.4	5.0	6.0	6.4	6.6	6.9	7.3	4.9	-1.0	0.5	5.3	7.1
Producers Price Inflation (WPI)	2.4	1.5	3.8	3.2	4.4	3.9	4.5	4.7	2.0	1.3	2.9	3.4	5.0
Compensation per Manhour (% change)	3.4	5.7	5.7	6.7	5.6	5.7	6.1	7.0	8.0	4.8	4.5	5.8	6.3
Productivity (% change)	3.1	2.1	1.9	1.4	1.0	0.6	0.6	1.0	0.2	3.4	2.7	1.5	1.0
Unit Labor Cost (% change)	0.3	3.6	3.7	5.2	4.6	5.1	5.5	5.9	7.8	1.3	1.8	4.3	5.3
Unit Capital Cost (% change)	4.7	4.6	4.5	4.4	4.3	4.2	4.0	3.9	9.5	6.9	4.7	4.2	3.7
Before Tax Corporate Profits ($ billions)<2>	255	259	263	260	254	243	232	232	181	213	257	247	242
Corporate Tax Liability	102	104	109	108	104	98	92	93	76	86	104	100	98
After Tax Profits	153	155	154	152	149	145	141	139	105	127	153	147	144
Inventory Valuation Adjustment	-7	-10	-15	-17	-21	-22	-23	-24	-9	-11	-12	-21	-29
Capital Consumption Adjustment	52	56	62	70	74	78	82	83	3	33	54	76	85
Profits from Current Production (with IVA, CCA)	198	201	201	205	203	201	200	198	98	149	196	202	200
Adjusted for Inflation (84:1 base)	196	198	196	198	193	189	186	182	105	153	193	191	180
Percent Change - Year Ago	34.2	20.8	10.2	7.0	-1.5	-4.5	-4.9	-7.9	-14.6	46.0	26.6	-1.1	-5.8
Per Unit of Output (% of GNP)	5.4	5.4	5.3	5.3	5.2	5.1	5.0	4.9	3.2	4.5	5.3	5.1	4.8
Effective Corporate Tax Rate (%)<2>	33	33	34	33	32	31	30	31	39	34	33	32	31
Federal Tax Receipts (Unified basis)	748	694	654	662	845	750	686	690	609	613	679	735	800
Percent of GNP	20.5	18.6	17.2	17.2	21.6	19.0	17.2	17.0	19.8	18.6	18.4	18.7	19.2
Federal Expenditures (Unified basis)	845	821	896	922	938	932	974	998	740	803	850	941	1,021
Percent of GNP	23.2	22.0	23.6	23.9	24.0	23.6	24.4	24.6	24.1	24.3	23.1	24.0	24.5
Surplus or Deficit (Unified basis)	-98	-128	-242	-260	-93	-182	-288	-308	-131	-190	-171	-206	-221
% of GNP	2.7	3.4	6.4	6.7	2.4	4.6	7.2	7.6	4.2	5.8	4.7	5.2	5.3
% of Personal Savings	67.1	78.3	152.9	164.1	57.5	108.1	164.1	180.5	97.8	158.1	110.3	123.5	127.2
% of Net Domestic Savings	30.8	37.2	71.9	76.6	27.8	54.2	85.3	93.6	67.3	80.0	52.4	61.0	66.1

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	3,037	2,748	2,648	2,594	2,493	2,400	2,301	2,451	1,948	2,719	2,843	2,447	2,676
Percent Change - Year Ago	*9.2*	*-0.8*	*-3.9*	*-11.8*	*-17.9*	*-12.7*	*-13.1*	*-5.5*	*-17.2*	*39.6*	*4.6*	*-13.9*	*9.3*
Dollar Volume (billions)	263.2	241.6	227.2	226.0	220.3*	216.5	203.0	221.6	156.5	224.5	245.4	216.4	248.2
Existing Home Prices - Median ($1000's)	73.1	75.0	73.6	75.2	76.5	78.4	76.9	79.0	67.7	69.8	73.4	76.7	81.1
Percent Change - Year Ago	4.8	5.5	5.1	4.7	4.6	4.5	4.4	5.0	2.3	3.2	5.1	4.6	5.7
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	672	715	712	736	740	753	729	724	754	633	685	740	719
Percent of Household Income	22	23	22	23	23	23	22	21	28	22	22	23	21
NAR Affordability Index	86.5	79.7	82.5	80.6	79.4	78.5	81.1	80.2	68.4	82.0	83.8	79.9	81.1
New Single-Family Home Sales (thousands)	627	610	590	578	573	566	556	584	417	626	630	568	626
Percent Change - Year Ago	-3.2	3.9	-12.2	-16.4	-8.6	-7.1	-5.7	1.1	-4.3	50.1	0.5	-9.7	10.1
New Home Prices - Median ($1000's)	80.2	81.1	82.2	83.3	84.4	85.6	86.9	88.4	69.3	75.5	80.4	85.1	90.8
Percent Change - Year Ago	6.9	4.5	8.3	6.9	5.3	5.5	5.7	6.1	0.7	8.9	6.5	5.8	6.7
New Home Prices--Mean ($1000's, Quality Adjusted)	93.5	94.6	95.4	97.0	98.3	99.4	100.4	102.4	87.8	89.7	93.6	98.8	104.9
Percent Change - Year Ago	5.4	4.3	5.8	6.6	5.1	5.1	5.2	5.6	2.8	2.1	4.4	5.5	6.2
New Mortgage Commitments ($ billions)	176.2	161.1	153.9	150.7	143.8	134.8	136.0	137.6	64.8	163.4	170.6	141.3	139.0
Percent Change - Year Ago	14.4	-16.1	-6.2	-21.2	-18.4	-16.3	-11.7	-8.6	8.1	152.1	4.4	-17.2	-1.6
Mortgage Debt Outstanding ($ billions)	1,927	1,996	2,065	2,134	2,200	2,265	2,332	2,240	1,629	1,752	1,964	2,233	2,169
Homeowners' Equity ($ billions)	2,765	2,801	2,868	2,923	2,965	3,010	3,058	3,113	2,396	2,580	2,786	2,989	3,210
Housing Inventory (millions)	93.2	93.6	94.0	94.4	94.7	95.0	95.4	95.7	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,898	1,681	1,552	1,525	1,454	1,480	1,543	1,622	1,056	1,704	1,775	1,500	1,694
Single-Family	1,140	1,021	942	916	873	899	943	991	663	1,066	1,095	908	1,045
Percent of Total	60.0	60.7	60.7	60.1	60.1	60.7	61.1	61.1	62.8	62.6	61.6	60.5	61.7
Multi-Family	759	660	610	609	581	582	600	632	394	637	680	593	649
Percent of Total	40.0	39.3	39.3	39.9	39.9	39.3	38.9	38.9	37.2	37.4	38.4	39.5	38.3
Mobile Home Shipments (thousands)	294	281	279	293	286	287	283	283	240	296	288	287	286
Rental Vacancy Rate (%)	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	49.2	56.2	60.2	61.6	60.7	59.4	58.7	58.5	65.2	43.0	52.3	60.1	59.0
Office Vacancy Rate (%)<1>	13.5	11.5	11.1	10.7	10.4	10.1	9.9	9.7	8.0	11.7	12.3	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.7	4.4	4.2	4.0	3.9	3.8	3.8	3.7	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	72.7	39.5	11.4	9.2	7.9	6.2	8.4	9.6	9.0	-4.2	39.8	15.1	9.5
New Industrial Building Construction (% Ch Value)	27.7	34.0	31.0	29.1	25.8	17.0	17.5	19.2	2.5	-25.7	17.8	26.8	17.2
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	6.3	3.0	4.9	3.8	4.5	5.2	5.9	5.1	6.6	11.0	6.6	4.5	5.4
M1 Velocity (% change)	4.5	5.9	2.3	2.8	1.0	-0.8	-1.2	1.1	-2.6	-3.1	4.5	2.1	0.8
M2 (% change)(FED Target 6-9%)	7.0	4.6	4.4	3.3	3.6	5.7	6.5	5.7	9.5	12.6	7.1	4.4	5.7
M2 Velocity (% change)	3.8	4.3	2.8	3.4	1.8	-1.3	-1.7	0.4	-5.3	-4.4	4.0	2.2	0.6
Monetary Base (% change)	9.7	3.1	6.8	5.7	5.2	4.9	4.6	4.8	6.9	9.5	7.9	5.5	5.3
Flow of Funds													
Supply (total)	398	425	423	426	429	432	439	433	212	280	409	432	445
Personal Savings	146	163	158	158	162	168	175	171	136	118	155	166	174
Savings Rate	5.7	6.2	6.0	5.9	5.9	6.0	6.2	6.0	6.2	5.0	6.0	6.0	5.9
Net Business Savings	118	119	117	120	115	110	107	104	29	76	115	113	103
State + Local Govt. Savings	54	61	61	61	59	57	55	55	33	44	57	58	57
Foreign Funds(current account deficit)	81	81	86	87	93	97	101	104	13	42	81	94	111
Demand (total)	363	334	417	429	227	312	413	423	167	325	388	346	330
Consumer Installment Debt(net change)	98	60	45	35	17	14	12	12	19	40	68	20	19
Commercial+Industrial Loans(net change)	50	61	48	51	43	45	39	26	23	-2	45	44	10
Home Mortgage Debt(net change)	117	86	82	83	74	71	75	77	-5	96	104	76	80
Federal Deficit	98	128	242	260	93	182	288	308	131	190	171	206	221
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.1	14.7	14.9	15.1	14.9	14.8	14.6	14.1	17.2	13.9	14.4	14.8	13.6
Real Mortgage Rate	10.9	11.1	10.8	10.4	10.4	10.3	9.5	9.0	12.9	10.2	10.5	10.1	8.5
1 Year ARM (without buy-down)	13.2	13.6	13.7	13.9	14.1	13.8	13.6	13.1	14.0	11.3	13.1	13.8	12.6
Real Mortgage Rate	10.0	10.0	9.6	9.2	9.6	9.3	8.5	8.0	9.7	7.5	9.3	9.1	7.4
Corporate Bond Rate (AAA)	13.2	13.2	13.4	13.6	13.6	13.5	13.3	12.9	13.8	12.0	13.0	13.5	12.5
Government Bond Rate	13.2	12.8	12.9	13.0	13.1	13.0	12.8	12.4	12.9	11.3	12.7	13.0	12.0
Real Government Bond Rate	10.0	9.2	8.8	8.3	8.6	8.5	7.7	7.3	8.7	7.6	8.9	8.3	6.8
Federal Funds Rate	10.6	11.5	11.7	12.1	12.3	12.2	12.0	11.5	12.3	9.1	10.9	12.2	10.6
3 Month Treasury Bill Rate	9.8	12.6	12.7	12.8	12.9	12.8	12.6	12.2	10.6	8.6	11.1	12.0	11.8
Real 3 Month T-Bill Rate	6.6	9.0	8.6	8.1	8.4	8.3	7.5	7.1	6.4	4.8	7.2	8.1	5.6
1 Year Treasury Bill Rate	11.5	11.9	12.0	12.2	12.4	12.1	11.9	11.4	12.3	9.6	11.4	12.2	10.9
Commercial Paper Rate	10.6	11.3	11.5	11.9	12.1	12.1	11.7	11.3	11.9	8.9	10.7	11.9	10.7
Rate on Money Market Fund Shares	10.8	11.5	11.7	12.1	12.3	12.3	11.9	11.5	12.1	9.0	10.9	12.2	10.8
Prime Rate	12.3	13.1	13.3	13.7	14.0	14.2	13.8	13.4	14.9	10.8	12.4	13.9	12.8

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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Outlook For The Economy and Real Estate

Aggregate Economy

The economy appears to have entered a phase of slower, more sustainable growth. After increasing at a compound annual rate of 8.8 percent during the first six months of this year, the U.S. Department of Commerce estimates that real or inflation-adjusted Gross National Product increased at a compound annual rate of 3.6 percent during the third quarter of this year. This "flash" estimate of real GNP growth, which is based on the level of economic activity in July and August, may be revised upward to about 4 percent since it looks as though the economy picked up somewhat in September. Domestic automobile sales during the first twenty days of September were up over August levels while major department store chains also reported increases in sales during the first half of September.

The growth rate of the economy should continue to slow through the end of 1985 as both investment and consumer spending wind down due to high interest rates. Real GNP should increase about 3 percent during the fourth quarter of this year, putting real economic growth for all of 1984 at about 7 percent. By the end of 1985 the economy should experience a "soft landing"--a mild recession lasting just two quarters. Interest rates should peak by that time at levels well below the levels of 1982, resulting in a less severe downturn in real estate activity and for the economy as a whole. This slowdown of the economy should cause private credit demands to subside, allowing interest rates to fall and setting the stage for economic recovery in 1986.

As shown in Table 1, the current recovery has been considerably stronger than the five preceeding recoveries with employment, household income, consumption and all forms of investment increasing faster than in previous recoveries. However, it should be noted that the growth of residential investment was not sufficient to reverse the decline of residential investment as a percentage of GNP. Similarly, while the Accelerated Cost Recovery System enacted in 1981 has contributed to the rise of nonresidential investment as a share of GNP, it is clear that virtually all of that increase is due to the sharp increase in investment in producers' durable equipment rather than structures. In summary, the current recovery and recent government policies have been less favorable for both residential and nonresidential real estate than during previous recoveries.

Employment and Inflation

Conditions in labor markets continue to improve but at a modest pace compared to the first six months of this year. In August, the seasonally adjusted level of employment in non-farm establishments increased by 159,000 compared to an average increase of about 350,000 during the first six months of this year. The civilian unemployment rate held at 7.5 percent in August, the same as in July. The unemployment rate is expected to decline to about 7.2 percent by the end of 1984 but then begin rising again in 1985 as the growth of the economy becomes too slow to absorb all new entrants into the labor force.

Table 1

	Percent Change First Six Quarters of Recovery[1]		Average Percent of GNP During First Six Quarters of Recovery	
	Current Recovery[2]	Average of Five Preceding Recoveries[3]	Current Recovery[2]	Average of Five Preceding Recoveries[3]
Employment	4.1	2.4	-	-
Household Income	4.4	3.5	83.0	79.8
Consumption	5.9	5.3	64.9	61.4
Gross Fixed Private Domestic Investment				
Residential	20.5	17.0	4.0	5.0
Nonresidential	16.4	6.2	10.9	9.3
Structures	6.3	2.6	4.0	3.8
Equipment	21.0	8.8	6.9	5.6

(1) All dollar figures measured in real or inflation-adjusted terms.

(2) Current Recovery 82:4 to 84:2.

(3) Five Preceding Recoveries 75:1 to 76:3, 70:4 to 72:2, 60:4 to 62:2, 58:1 to 59:3, 54:2 to 55:4.

Inflation remains at relatively low levels but should gradually accelerate over the remainder of this year and through 1985 and 1986. During the third quarter the Consumer Price Index (CPI) is expected to increase at a compound annual rate of 3.9 percent, up only slightly from the 3.7 percent annual rate of the second quarter. A major factor behind this low inflation rate has been moderate wage gains and the very high value of the U.S. dollar which has kept import prices low and thereby restrained increases in prices of domestically produced goods and services. The excessive value of the dollar has kept inflation rates down by an estimated 1-1/2 percentage points.

As the economy continues to grow over the next 9 to 12 months inflation should accelerate due to rising capacity utilization and tighter conditions in labor markets and a modest decline in the value of the dollar. By the end of 1985, the CPI should be rising at a seasonally adjusted annual rate of about 5 percent.

Monetary Policy and Interest Rates

Both short and long-term interest rates declined in September in response to the slowing economy accompanied with subsiding private credit demands and a more accommodative stance by the Federal Reserve Board (FED). In early September the FED began to aggressively supply reserves to the banking system, causing the federal funds rate to fall from an average of 11.7 percent during the first week of September to an average of 10.7 during the last week of the month. In response, the yield on 3-month Treasury bills fell about 25 basis points over the month and most major banks reduced their prime rate from 13 percent to 12 3/4 percent. Long-term rates also fell with the yield on 30-year Treasury bonds falling about 40 basis points to 12.3 percent.

There are divergent opinions about where interest rates will go from here. Our analysis suggests that interest rates are likely to further decline during the fourth quarter as the FED responds to the sharp slowdown of the economy and private credit demands continue to ease. However, there is a limit to how accomodative the FED can be before credit markets begin to fear a sharp acceleration in inflation due to too rapid growth of the money supply. Therefore, interest rates should resume their upward trend latter this year and through 1985. The federal funds rate should peak at about 12-1/2 percent in mid-1985 while long term rates should peak later in that year. The commitment rate on 30-year fixed rate mortgages should rise about 50 basis points to the 14-1/2 percent level during the second half of 1985.

Real Estate Markets

Both existing home sales and housing starts continued their downward trends in August in response to high mortgage interest rates. Sales of existing single-family homes declined 1.8 percent to a seasonally adjusted annual rate of 2.72 million units, the fourth consecutive monthly decline. Housing starts fell 12.8 percent in August to a seasonally adjusted annual rate of 1.54 million units.

Both resales and starts should continue to decline through the end of 1985 with resales falling to a seasonally adjusted annual rate of about 2.2 to 2.3 million units by the fourth quarter of 1985 while starts bottom out at 1.5 million unit level. During 1986 there should be modest improvements in housing markets as mortgage rates fall and affordability improves.

Construction of new commercial structures continues to improve but at a much more modest pace than during the first half of this year. For all of 1984, the value of new commercial structures put in place should increase 35 percent, then slowing to about 12 percent in 1985 and 8 percent in 1986. In contrast, the pace of construction of new industrial structures is increasing after a decline of 26 percent in 1983. The value of new industrial structures put in place should increase about 13 percent in 1984, accelerating to about 18 percent in 1985, and then slow to 11 percent in 1986.

Table 2

OCTOBER 1984

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,645	3,707	3,767	3,834	3,891	3,925	3,962	4,034	3,069	3,305	3,668	3,903	4,158
Percent Change	10.7	7.0	6.7	7.3	6.0	3.6	3.8	7.4	3.8	7.7	11.0	6.4	6.5
Percent Change (without inflation)	7.1	3.6	3.0	2.5	1.6	-0.6	-1.0	2.6	-2.1	3.7	7.0	2.2	1.7
Consumption	7.9	1.2	5.1	3.0	1.0	0.3	0.1	0.8	1.4	4.8	5.4	2.6	1.3
Durables	12.0	-1.7	11.9	3.9	-2.9	-5.2	-5.3	-1.8	-0.3	12.1	13.2	2.0	-0.5
Nondurables	10.3	0.4	4.1	2.9	1.7	1.3	1.0	1.1	0.6	3.7	5.1	2.7	1.4
Services	4.6	2.9	3.6	2.9	1.9	1.5	1.4	1.5	2.5	3.4	3.2	2.7	1.8
Residential Investment	1.3	0.3	-12.6	-9.4	-9.8	-7.9	-1.8	11.6	-15.0	41.7	12.3	-7.6	6.0
Nonresidential Investment	21.4	17.8	9.1	6.4	4.4	2.7	0.8	0.8	-4.7	2.5	20.4	7.9	1.7
Structures	21.3	18.3	8.9	8.1	4.2	3.3	2.0	1.4	0.2	-7.8	17.3	8.4	2.3
Equipment	21.2	17.8	9.2	5.8	4.4	2.5	0.4	0.6	-6.8	7.3	21.7	7.6	1.5
Exports	-0.6	14.7	5.0	4.7	5.1	4.7	4.5	5.2	-7.8	-5.6	5.9	5.7	5.5
Imports	8.1	34.4	3.2	3.4	6.8	4.0	2.9	2.0	1.3	7.6	27.5	7.7	2.9
Government Purchases	18.6	7.6	3.8	2.6	2.8	2.8	1.2	3.3	2.0	-0.3	3.6	4.3	2.4
Consumption (% of GNP)	64.9	64.6	64.9	65.0	64.9	65.1	65.2	65.0	65.1	65.8	64.8	65.0	64.8
Residential Investment (% of GNP)	3.7	3.7	3.5	3.4	3.3	3.3	3.3	3.3	2.6	3.5	3.7	3.3	3.5
Nonresidential Investment (% of GNP)	12.4	12.8	13.0	13.1	13.2	13.3	13.4	13.3	11.3	11.1	12.5	13.2	13.2
Structures (% of GNP)	3.5	3.6	3.6	3.7	3.7	3.7	3.8	3.8	3.6	3.2	3.5	3.7	3.7
Equipment (% of GNP)	8.9	9.2	9.3	9.4	9.5	9.6	9.6	9.5	7.7	7.9	9.0	9.5	9.5
Inventory Change ($ billions)	50.6	58.0	40.8	35.9	40.1	25.4	10.6	16.5	-26.1	-13.5	55.8	28.0	19.0
Mfg. Capacity Utilization Rate (%)	82	83	83	83	82	81	80	80	71	75	82	82	80
Auto Sales (millions of units)	10.7	10.5	11.1	11.1	10.6	10.4	10.1	9.9	8.0	9.2	10.7	10.6	10.0
Domestic (% of total)	77.3	76.9	74.2	77.2	75.6	73.4	71.5	71.0	72.3	74.0	76.6	74.5	71.2
Imported (% of total)	22.7	23.1	25.8	22.8	24.4	26.6	28.5	29.0	27.9	26.0	23.4	25.5	28.8
Manufacturing Industrial Production (% change)	8.7	8.1	4.5	4.0	0.0	-2.0	-2.3	1.6	-8.5	7.8	11.7	2.9	1.7
Common Market	-5.0	6.0	7.1	1.7	2.2	3.6	1.8	1.2	-1.4	0.4	3.1	3.1	1.9
Japan	11.1	5.4	8.0	7.3	2.0	1.5	2.3	3.4	0.4	3.5	10.8	5.3	2.6
Employment(millions)(civilian:household basis)	105.1	105.3	106.1	106.8	107.2	107.3	107.3	107.4	99.5	100.8	105.1	107.1	108.1
Unemployment Rate (%) (civilian)	7.5	7.4	7.2	7.2	7.3	7.5	7.9	8.1	9.7	9.6	7.5	7.5	8.1
Personal Income per Household (average)<1>	38,272	38,964	39,420	39,992	40,498	40,897	41,380	42,003	33,698	35,461	38,550	40,692	43,021
Percent Change -- Year Ago (w/o inflation)	5.7	6.0	4.5	2.9	1.7	0.7	0.5	0.4	-0.5	1.5	5.3	1.5	0.9
Personal Taxes per Household (average)	6,903	7,073	7,166	7,257	7,361	7,441	7,542	7,774	6,443	6,486	6,972	7,400	8,009
Percent Change -- Year Ago (w/o inflation)	1.2	6.7	5.5	3.7	2.5	0.9	0.7	2.4	-2.1	-3.0	3.6	1.9	3.3
Percent of Personal Income	18.8	18.9	19.0	19.0	19.0	19.0	19.0	19.3	19.9	19.1	18.9	19.0	19.5
Disposable Income per Household (average)	31,370	31,890	32,254	32,735	33,136	33,456	33,838	34,229	27,256	28,975	31,579	33,291	35,012
Percent Change--Year Ago (w/o inflation)	6.7	5.7	4.2	2.8	1.6	0.8	0.5	0.0	-0.1	2.5	5.6	1.4	0.4
Household Interest Payments (% of total)	10.6	10.4	10.4	10.4	10.5	10.9	10.9	10.7	9.6	9.8	10.4	10.7	10.4
Net Worth per Household (average)	76,106	77,553	79,444	80,989	82,307	83,669	85,206	87,125	66,194	73,935	77,208	83,043	90,546
Percent Change -- Year Ago (w/o inflation)	-0.9	-0.3	1.8	3.1	4.0	3.5	2.6	2.9	-1.8	7.6	0.7	3.3	4.1
Consumer Price Inflation (CPI)	3.7	3.9	3.9	4.6	4.7	4.5	4.9	5.1	6.2	3.2	4.3	4.4	5.0
Gross National Product Inflation (GNP Deflator)	3.3	3.3	3.6	4.7	4.4	4.2	4.9	4.9	6.0	3.8	3.7	4.1	4.8
Personal Consumption Inflation	2.2	3.8	3.4	4.2	4.4	4.4	4.7	4.8	5.9	3.7	3.2	4.0	4.7
Residential Construction Inflation	11.4	1.3	1.9	4.7	5.4	5.4	5.6	6.1	3.0	1.7	3.6	4.4	6.1
Nonresidential Construction Inflation	2.3	1.2	3.4	6.4	6.7	6.4	6.8	6.9	4.9	-1.0	0.4	5.0	6.8
Producers Price Inflation (WPI)	2.6	-0.2	2.3	3.8	3.5	3.4	4.6	5.3	2.0	1.3	2.6	2.9	4.7
Compensation per Manhour (% change)	3.7	3.7	4.9	6.4	5.5	5.3	5.8	6.9	8.0	4.8	4.3	5.3	6.1
Productivity (% change)	4.6	2.5	2.4	1.5	1.1	0.9	0.5	1.0	0.2	3.4	3.1	1.8	1.1
Unit Labor Cost (% change)	-0.8	0.9	2.4	4.9	4.3	4.3	5.2	5.8	7.8	1.3	1.2	3.4	4.9
Unit Capital Cost (% change)	4.7	4.5	4.5	4.3	4.2	4.0	3.8	3.6	9.5	6.9	4.7	4.1	3.4
Before Tax Corporate Profits ($ billions)<2>	254	250	253	245	243	232	221	221	181	213	252	235	233
Corporate Tax Liability	104	103	106	103	102	96	90	92	76	86	104	98	98
After Tax Profits	150	148	146	141	141	136	131	129	105	127	149	137	135
Inventory Valuation Adjustment	-7	-5	-8	-16	-18	-18	-22	-25	-9	-11	-8	-19	-26
Capital Consumption Adjustment	52	57	63	72	76	80	84	86	3	33	55	78	87
Profits from Current Production (with IVA, CCA)	195	200	201	197	199	197	193	189	98	149	195	197	196
Adjusted for Inflation (84:1 base)	194	197	196	190	189	186	180	174	105	153	193	186	178
Percent Change - Year Ago	32.5	20.2	10.6	2.7	-2.2	-5.4	-8.0	-8.0	-14.6	46.0	26.1	-3.3	-4.7
Per Unit of Output (% of GNP)	5.4	5.4	5.3	5.1	5.1	5.0	4.9	4.7	3.2	4.5	5.3	5.0	4.7
Effective Corporate Tax Rate (%)<2>	33	33	33	33	33	31	30	31	39	34	33	32	32
Federal Tax Receipts (Unified basis)	748	690	646	663	848	751	685	694	609	613	676	737	800
Percent of GNP	20.5	18.6	17.1	17.3	21.8	19.1	17.3	17.2	19.8	18.5	18.4	18.9	19.2
Federal Expenditures (Unified basis)	845	819	884	925	940	932	970	999	740	803	847	942	1,020
Percent of GNP	23.2	22.1	23.5	24.1	24.2	23.8	24.5	24.8	24.1	24.3	23.1	24.1	24.5
Surplus or Deficit (Unified basis)	-98	-129	-238	-262	-93	-181	-285	-304	-131	-190	-171	-205	-220
% of GNP	2.7	3.5	6.3	6.8	2.4	4.6	7.2	7.5	4.2	5.8	4.7	5.3	5.3
% of Personal Savings	67.5	80.7	165.7	181.3	62.0	118.7	177.7	185.7	97.8	158.1	114.2	134.9	133.3
% of Net Domestic Savings	31.1	38.8	75.1	83.6	29.2	57.7	91.0	98.0	67.3	80.0	53.6	65.4	69.1

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 3

OCTOBER 1984

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	3,037	2,717	2,647	2,551	2,450	2,351	2,250	2,400	1,948	2,719	2,835	2,401	2,700
Percent Change - Year Ago	9.2	-1.9	-4.0	-13.2	-19.3	-13.5	-15.0	-5.9	-17.2	39.6	4.3	-15.3	12.5
Dollar Volume (billions)	263.2	237.7	227.0	220.8	216.1	211.7	197.3	214.5	156.5	224.5	244.4	211.5	248.7
Existing Home Prices - Median ($1000's)	73.1	74.5	73.5	74.6	76.4	78.2	76.4	78.0	67.7	69.8	73.2	76.4	80.5
Percent Change - Year Ago	4.8	4.8	5.0	4.0	4.4	5.0	3.9	4.6	2.3	3.2	4.9	4.3	5.4
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	673	697	678	693	714	736	709	710	754	633	672	713	725
Percent of Household Income	22	22	22	22	22	23	21	21	28	22	22	22	21
NAR Affordability Index	86.5	83.6	85.4	84.1	81.7	79.0	82.1	81.9	68.4	82.0	85.5	81.7	82.7
New Single-Family Home Sales (thousands)	631	610	590	570	550	530	510	546	417	626	631	540	611
Percent Change - Year Ago	-2.5	3.9	-12.2	-17.5	-12.9	-13.2	-13.5	-4.2	-4.3	50.1	0.7	-14.4	13.1
New Home Prices - Median ($1000's)	80.4	81.0	81.3	82.2	83.3	84.5	85.7	87.1	69.3	75.5	80.2	83.9	89.4
Percent Change - Year Ago	7.2	4.3	7.1	5.5	3.6	4.3	5.4	6.0	0.7	8.9	6.2	4.7	6.5
New Home Prices--Mean ($1000's, Quality Adjusted)	93.5	93.7	93.8	95.4	96.6	97.8	98.8	100.7	87.8	89.7	93.0	97.2	103.0
Percent Change - Year Ago	5.4	3.3	4.0	4.8	3.3	4.4	5.3	5.6	2.8	2.1	3.7	4.5	6.0
New Mortgage Commitments ($ billions)	174.9	158.0	150.4	142.9	131.3	126.1	127.6	133.2	64.8	163.4	168.6	132.0	152.1
Percent Change - Year Ago	13.5	-17.7	-8.3	-25.2	-24.9	-20.2	-15.2	-6.8	8.1	152.1	3.2	-21.7	15.2
Mortgage Debt Outstanding ($ billions)	1,927	1,998	2,069	2,140	2,207	2,275	2,345	2,256	1,629	1,752	1,966	2,242	2,195
Homeowners' Equity ($ billions)	2,769	2,803	2,858	2,902	2,929	2,963	3,010	3,063	2,398	2,587	2,787	2,951	3,158
Housing Inventory (millions)	93.2	93.6	94.0	94.4	94.7	95.1	95.4	95.7	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,895	1,621	1,638	1,574	1,530	1,481	1,510	1,668	1,056	1,704	1,781	1,524	1,727
Single-Family	1,137	955	1,012	970	939	909	955	1,031	663	1,066	1,096	943	1,075
Percent of Total	60.0	58.9	61.8	61.7	61.4	61.4	63.2	61.8	62.8	62.6	61.4	61.9	62.3
Multi-Family	758	666	625	603	591	572	555	637	394	637	685	580	651
Percent of Total	40.0	41.1	38.2	38.3	38.6	38.6	36.8	38.2	37.2	37.4	38.6	38.1	37.7
Mobile Home Shipments (thousands)	294	291	286	296	293	289	275	284	240	296	292	288	285
Rental Vacancy Rate (%)	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	48.8	56.5	60.4	61.7	61.1	59.9	59.6	59.3	65.2	43.0	52.3	60.6	59.4
Office Vacancy Rate (%)<1>	13.5	11.5	11.1	10.7	10.4	10.1	9.9	9.7	8.0	11.7	12.3	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.7	4.4	4.2	4.0	3.9	3.8	3.8	3.7	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	68.5	14.8	6.9	11.1	8.4	4.2	7.1	8.4	9.0	-4.2	35.2	11.7	8.2
New Industrial Building Construction (% Ch Value)	16.4	10.5	26.2	20.0	19.4	11.2	7.0	6.9	2.5	-25.7	12.5	17.5	10.6
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	6.3	5.5	6.1	4.6	4.9	5.9	6.9	6.8	6.6	11.0	7.0	5.5	6.2
M1 Velocity (% change)	4.2	1.4	0.5	2.6	1.1	-2.2	-2.8	0.6	-2.6	-3.1	3.8	0.9	0.3
M2 (% change)(FED Target 6-9%)	7.0	6.2	6.9	5.5	4.7	7.1	7.7	6.5	9.5	12.6	7.5	6.1	7.0
M2 Velocity (% change)	3.4	0.8	-0.2	1.8	1.3	-3.3	-3.6	0.8	-5.3	-4.4	3.3	0.3	-0.4
Monetary Base (% change)	9.7	5.3	7.1	5.3	4.7	4.3	4.2	4.7	6.9	9.5	8.2	5.6	5.1
Flow of Funds													
Supply (total)	412	443	421	412	418	417	418	415	212	280	417	416	429
Personal Savings	145	160	144	145	149	153	160	164	136	118	150	152	166
Savings Rate	5.7	6.2	5.4	5.4	5.5	5.5	5.7	5.8	6.2	5.0	5.9	5.5	5.7
Net Business Savings	115	119	119	113	112	108	102	96	29	76	115	109	100
State + Local Govt. Savings	55	54	55	56	56	53	50	50	33	44	54	54	53
Foreign Funds(current account deficit)	98	109	104	98	101	102	105	105	13	42	97	102	109
Demand (total)	398	331	412	405	196	298	414	438	165	325	396	328	365
Consumer Installment Debt(net change)	98	58	47	36	18	15	12	12	19	40	68	20	20
Commercial+Industrial Loans(net change)	86	51	37	20	7	22	34	35	22	-2	49	21	27
Home Mortgage Debt(net change)	116	92	90	88	78	79	83	87	-6	96	108	82	98
Federal Deficit	98	129	238	262	93	181	285	304	131	190	171	205	220
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.2	14.4	14.2	14.3	14.4	14.5	14.3	14.0	17.2	13.9	14.1	14.4	13.8
Real Mortgage Rate	10.8	11.1	10.6	9.6	10.0	10.3	9.4	9.1	12.9	10.2	10.5	9.8	8.9
1 Year ARM (without buy-down)	13.2	13.5	12.9	13.6	13.9	13.7	13.3	12.9	14.0	11.3	12.9	13.6	12.2
Real Mortgage Rate	9.9	10.2	9.3	8.9	9.5	9.5	8.4	8.0	9.7	7.5	9.2	9.1	7.3
Corporate Bond Rate (AAA)	13.2	13.0	12.6	12.7	12.8	12.9	12.7	12.4	13.8	12.0	12.8	12.8	12.3
Government Bond Rate	13.2	12.5	12.1	12.2	12.3	12.4	12.2	11.9	12.9	11.3	12.5	12.3	11.8
Real Government Bond Rate	9.9	9.2	8.5	7.5	7.9	8.2	7.3	7.0	8.7	7.6	8.8	7.7	6.8
Federal Funds Rate	10.6	11.5	11.2	12.0	12.4	12.2	11.9	11.4	12.3	9.1	10.7	12.1	10.8
3 Month Treasury Bill Rate	9.8	10.3	10.1	10.9	11.3	11.1	10.8	10.4	10.6	8.6	9.8	11.0	9.7
Real 3 Month T-Bill Rate	6.5	7.0	6.5	6.2	6.9	6.9	5.9	5.5	6.4	4.8	6.2	6.5	4.8
1 Year Treasury Bill Rate	11.5	11.8	11.2	11.9	12.2	12.0	11.6	11.2	12.3	9.6	11.2	11.9	10.5
Commercial Paper Rate	10.6	11.3	11.0	11.7	12.1	12.0	11.7	11.2	11.9	8.9	10.6	11.9	10.6
Rate on Money Market Fund Shares	10.8	11.5	11.2	11.9	12.3	12.2	11.9	11.4	12.1	9.0	10.8	12.1	10.7
Prime Rate	12.3	13.0	12.9	13.5	13.9	14.0	13.7	13.1	14.9	10.8	12.3	13.8	12.3

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.